

Unemployment and Social Security

A Comparative Analysis of Benefits for the Unemployed in Great Britain and West Germany

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I declare that the thesis has been composed by myself and that the work is my own.

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ABSTRACT

The thesis examines the development of unemployment compensation in Great Britain and West Germany between the mid 1960s and the end of the 1980s. The main objective is to identify the relative importance and interrelation of factors leading to decisions affecting the level, duration and conditions of assistance and insurance benefits for unemployed people in a comparative context. Policy decisions can only partly be explained, it is argued, with reference to political, economic and ideological factors. Benefit changes were influenced by the level of unemployment, the perception of unemployment as a social and political problem, economic developments, economic policy doctrines adopted by governments, and the composition of governments. However, outcomes were also strongly influenced by different welfare state traditions, principles and institutional arrangements. In West Germany, insurance benefit levels have traditionally been closely related to previous earnings. Income support arrangements for unemployed people are fragmented into separate administrative funding mechanisms, based on three different social security principles. In the traditional British welfare state context the principle of contributory unemployment benefits has remained less developed and inferior to the idea of modest flat-rate income support. Both insurance and assistance benefits are centrally administered and financed. The study seeks to demonstrate that these institutional variables or 'welfare state legacies' acted as factors which guided, constrained or facilitated policy decisions to a considerable degree by shaping interests and narrowing the scope of seriously considered policy options. Indicating the impact of structural and endogenous factors which informed policy changes, the thesis seeks to underline the relevance of qualitative comparative research for an understanding of developments in national welfare programmes.

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Abbreviations

AfA	(<i>Ausschuß für Arbeit</i>) Select Committee on Labour and Social Affairs in the West German Parliament
AFG	(<i>Arbeitsförderungsgesetz</i>) Labour Promotion Act - legislative framework in West Germany in which unemployment insurance and labour market policies are regulated (see Chapter 4)
AFKG	(<i>Arbeitsförderungskonsolidisierungsgesetz</i>) Labour Market Promotion Consolidation Act
AVAVG	(<i>Gesetz über Arbeitsvermittlung und Arbeitsversicherung</i>) Predecessor of the AFG, introduced in 1927 (see Chapter 3)
BDA	(<i>Bundesvereinigung Deutscher Arbeitgeberverbände</i>) Association of West German Employer Organisations
BT-Drs.	(<i>Bundestagsdrucksache</i>) publications by the West German Parliament
BT-Verh.	(<i>Bundestagsverhandlungen</i>) minutes of debates in the West German Parliament
CBI	Confederation of British Industry
CDU	(<i>Christlich Demokratische Union</i>) Conservative Party in the West German Parliament
CPAG	Child Poverty Action Group
CSU	(<i>Christlich Soziale Union</i>) the CDU's sister party in Bavaria
DGB	(<i>Deutscher Gewerkschaftsbund</i>) German Trades Union Council
DHSS	Department of Health and Social Security
DSS	Department of Social Security
ERS	Earnings-related supplemented to short-term insurance benefits in Great Britain
FDP	(<i>Freie Demokratische Partei</i>) Liberal Party in the West German Parliament
HCD	Debates in the House of Commons
MSC	Manpower Services Commission
NAB	National Assistance Board

NEDC	National Economic Development Council
NIAC	National Insurance Advisory Committee
SBC	Supplementary Benefit Commission
SPD	<i>(Sozialdemokratische Partei Deutschlands)</i> Social Democratic Party in the West German Parliament
SSAC	Social Security Advisory Committee
TUC	Trades Union Council

German expressions used frequently in the text

<i>Arbeitslosengeld</i>	Unemployment insurance benefit; contributory benefit provided by the Bundesanstalt (see Chapter 4)
<i>Arbeitslosenhilfe</i>	Unemployment assistance; contributory but means-tested benefit provided by the Bundesanstalt (see Chapter 4)
<i>Bundesanstalt</i>	Bundesanstalt für Arbeit; Federal Labour Institute which is responsible for the payment of main benefits to unemployed claimants and for the administration of employment programmes (see Chapter 4)
<i>Bundesrat</i>	Second Chamber in West Germany consisting of representatives of Länder governments
<i>Bundestag</i>	West German Parliament, Lower House
<i>Haushaltssolidierungsgesetz</i>	Act for the consolidation of the budget (see Chapter 7)
<i>Haushaltsstrukturgesetz</i>	Act for the restructuring of the budget (see Chapter 6)
<i>Länder</i>	Federal states in West Germany
<i>Sozialhilfe</i>	Means-tested benefit administered and financed by municipalities and Länder (see Chapter 4)

Chapter 1

Introduction

This research focuses on policy changes in income support schemes for unemployed people in Great Britain and West Germany between the mid 1960s and the end of the 1980s. The aim is to identify factors and their relative importance in relation to political decisions which led to changes in the level and conditions of unemployment benefits. It has to be noted that these changes cannot be studied in isolation. Other state and non-state transfers (e.g. redundancy payments) have to be considered. However, the analysis concentrates on developments in public programmes which provide insurance and assistance benefits for jobless people. The main indicators are related to the receipt of benefits (level and duration of entitlement) and the conditions of eligibility (contribution conditions, work records, need, age, etc.) as well as to changes in the sanctions for 'voluntary unemployment' (e.g. disqualification and benefit suspension periods and rules concerning the availability for employment). In short, the dependent variables are those characteristics which make benefit regulations more or less generous for unemployed claimants.

High unemployment has been characteristic of all but a few market economies since the mid 1970s. In both Great Britain and West Germany the number of people out of work remained high throughout the 1980s and the proportion of those out of a job for more than one year (now conventionally termed the 'long-term' unemployed) rose substantially. The latest increase in unemployment figures since the beginning of the 1990s in both Great Britain and (the now unified) Germany suggests that mass unemployment will remain a problem in both societies for some time to come. However, while the loss of income from work means a precarious situation for the growing number of unemployed and their families, unemployment no longer seems to represent a particular political problem or threat to governments. In comparison with earlier decades, it is both interesting and disturbing to note how little attention unemployment seems to attract in current political and also public debates.

The release of monthly jobless figures by the Department of Employment in Great Britain and the Federal Labour Institute in Germany has become nothing

more than the starting point for a brief political ritual which involves a routine dispute between governments and critics inside and outside of Parliament. Opposition groups point to the complacency and inactivity in the fight against unemployment, while ministers try to deflect attention by referring to statistics which, it is hoped, will shed a positive light on the latest joblessness figures. A 'slowdown' in the rate of increase in unemployment in the previous month or (if more convenient) the previous three months, compared with the preceding period, is emphasised, the fact that joblessness in other countries is even worse, or the notion that the number of people in employment has increased is noted. After three or four days, if that, the debate is over and the topic disappears from the agenda for another month.

However, while unemployment appears to have disappeared from political and public debates, policies in response to high unemployment have been, and continue to be a research topic. There are a large number of studies on the effectiveness of training and on job creation programmes as well as on alternative options to paid employment (e.g. early retirement).¹ Unemployment benefits (sometimes referred to as 'passive' labour-market instruments) have been the focus of academic interest albeit to a lesser extent. Within economics, the impact of income transfers on the behaviour of unemployed people is a controversial issue which has often been debated.² In investigations into the living conditions of jobless people and their families unemployment benefits have constituted a major part of income.³ Nevertheless, while there is a large body of research on the formulation and change of 'active' labour market policies,⁴ systematic analyses of policy developments in the area of income support systems for unemployed people have been much rarer. This seems surprising considering that the majority of the population in modern societies is either directly or (as a family member) indirectly dependent on wage labour, which makes unemployment compensation a crucial form of income security. Also, benefits for the unemployed have remained an ambiguous form of public support due to the specific nature of the risk of redundancy compared with (for instance) the loss of income as a result of sickness or old age (see Chapter 2). This makes a policy analysis in this

¹ See, for example, Hart (1986) for a discussion of 'active' labour market programmes in Great Britain and Schäfer (1988) for West Germany. A recent study by Disney et al. (1992) evaluates and compares the effects of 'active' labour market programmes in these two countries.

² For a review of the literature and evidence see Atkinson et al. (1984) and Micklewright (1986).

³ For the impact on the living standard of families affected by unemployment in West Germany see Klein, 1987. For a recent study concerning the situation in Great Britain, see Daniel, 1990.

⁴ See, for example, Richardson and Henning (1984) and Webber (1984; 1987).

particular area especially interesting since various economic, political and ideological influences on policy changes can be expected.

Considering the lack of a qualitative detailed analysis of benefit changes over time for unemployed claimants in either Great Britain or West Germany there seems to be sufficient reason to embark on an investigation of policies in one country alone. With regard to West Germany, a number of analyses and descriptions about various policy areas have recently been published in English (see, for example, von Beyme and Schmidt, 1985; Smith et al., 1989; and also in Adler et al., 1991) but no major study on the development of unemployment compensation since the mid 1960s has yet appeared in any language (see Bieback, 1989). The documentation of the development of benefits for unemployed people in Great Britain has been somewhat fuller (see Atkinson and Micklewright, 1988; Brown, 1990; Morris with Llewellyn, 1991) but there is a lack of a detailed analysis of these changes in the light of developments in other countries which could lead to better explanations or even a reinterpretation of the causes of these alterations.

As will become clear during the course of the analysis, a comparative perspective has the potential advantage of contributing to a better understanding of policy changes. A cross-national study can demonstrate that policy choices are not inevitable and that policy decisions can be influenced by respective welfare structures in different countries. Thus, rather than simply describing developments in more than one country, a comparative study can have explanatory advantages. As this research will demonstrate, results can lead to theoretical implications which might not have been considered had a study been restricted to only one country. Of course, there are limitations and pitfalls (related to methodological questions, the number and choice of countries etc.) in comparative research which have to be recognised. These will be discussed in Chapter 2.

A number of factors can be expected to have influenced changes in benefit regulations. The perception of unemployed benefit claimants as either 'victims' of circumstances outside of individual control or as 'workshy' and thus undeserving 'villains' (Brown, 1990) who should not be in receipt of social security support are potentially important factors. Governments might have been interested in reinforcing one or other perception. Also, political attempts to prevent social unrest and political instability or, by contrast, to encourage claimants to step up work-seeking activities are factors which can be expected to have been relevant influences. Unemployment has a direct effect on public

revenues, resulting in reduced receipts from taxation and social insurance contributions, and increases of expenditure on social security benefits and other public programmes such as job creation and training schemes. Thus, financially motivated attempts to reduce public expenditure can be expected to have played a significant part in governments' policy initiatives.

Wider influences might be identified as important, such as constraints upon the action of governments either to open or to restrict access to eligibility for benefits. Different conditions might be relevant in the two countries under investigation, such as the composition of governments, economic policy doctrines, ideological positions and party politics. Also the position of oppositional parties, unions, employer organisations and other organisations interested in social security matters and unemployment have to be taken into account. While all these (and other) influences will be investigated, a central hypothesis of the study is that the respective welfare state traditions and institutions or welfare legacies (see Chapter 2) in the two countries have played an important role in shaping the expression of political interests and limiting the scope of seriously considered policy actions and have thus constrained policy choices to a significant extent.

Unemployment compensation schemes in the two countries differ in many respects. In Chapter 4 I will discuss the major characteristics of the current frameworks in more detail but some of the institutional differences should be noted here. While income support schemes comprise unemployment insurance and assistance benefits in both countries, there are basically two forms of income support in Great Britain, in contrast with West Germany where unemployed claimants rely on three different types of benefits. In both countries, the 'last resort' of benefits for the unemployed are means-tested benefits. However, these are centrally administered and financed in Great Britain in contrast to the administration and finance by local authorities in West Germany. Benefit levels in Great Britain are mainly flat-rate for both insurance and assistance benefits while in Germany two out of the three types of benefits available for unemployed claimants are fully related to former earnings.

Entitlement periods for the primary insurance benefit in West Germany vary with individual insurance records (for claimants above a certain age) while in Great Britain all claimants qualifying for unemployment insurance have the same entitlement period. The funding of unemployment insurance in West Germany is based on earmarked and earnings-related contributions paid to an agency separate from the government which also administers 'active' labour market programmes

and is controlled by a tripartite body consisting of representatives from employers, employees and public authorities. The government has a supervisory role and is required to subsidise the fund in case deficits occur. In Great Britain, there is no separately identified unemployment insurance contribution or fund. National insurance contributions are paid into the National Insurance Fund which is controlled by the government and also finances other insurance benefits and, partly, the NHS. Traditionally the government paid subsidies to this fund, but this was abolished in 1989.

The historical development of these characteristics of unemployment compensation is the subject of Chapter 3, but the point to note here is that most of these structural differences have been in place for a long time. The different principles were already evident by the time public unemployment systems were introduced in Great Britain in 1911 and Germany in 1927 and further changes were introduced in the 1930s. Since then distinct unemployment benefit arrangements and principles have largely remained intact. This is important with regard to a central argument in this thesis. As indicated earlier and outlined in more detail in Chapter 2, the different 'welfare legacies' in the two countries appear to have been strong influences on policy decisions with regard to unemployment compensation. It will be argued that benefit changes were not simply the result of economic or political factors but that distinct institutional arrangements informed policy choices and policy outcomes to a considerable extent. Particular national benefit arrangements contributed to political coalitions and conflicts, and thus to the narrowing of the perceptions of available options for policy makers.

The period under investigation stretches from the mid 1960s to the end of the 1980s. The reasons for choosing this period will be further outlined in Chapter 2, but the most important factors for this choice with regard to the starting and the final years of the analysis should be mentioned here. The mid 1960s was a period when, after declining and subsequently relatively low levels of joblessness from the 1950s, unemployment started to become a problem again in both countries, although (as explained in Chapter 5) in a different context and to a lesser extent than in the 1970s and 1980s. A number of factors (which are discussed in Chapter 2 and Chapter 4) allow a fruitful comparison between Great Britain and (the now former) West Germany. Thus, I have chosen 1989 to be the final year of the analysis, as the last full year of the existence of West Germany.

While the structure of the thesis will be discussed in more detail in the next chapter, I will provide a brief overall outline as a guide for the reader. The

objective of Chapter 2 is to put the study into a theoretical context, to discuss questions of comparative research in general and in relation to the two countries chosen in particular. It also provides a discussion of the method adopted and the research design. The historical origin and development of public unemployment compensation schemes in both countries will be described in Chapter 3. The objective is to provide the reader with background information about the respective welfare traditions concerning unemployment compensation programmes. In Chapter 4, I will discuss the main characteristics and differences of unemployment compensation arrangements currently in operation in the two countries. The subsequent four chapters represent the centre of the thesis, analysing in detail benefit changes in different periods between the mid 1960s and the end of the 1980s in the two countries. Each chapter is structured in the same way, concentrating on Great Britain first, followed by an analysis of policy decisions in West Germany and finally a comparative assessment. Chapter 9 concludes the analysis with a discussion of the main benefit changes throughout the period in the light of hypotheses and arguments outlined in Chapter 2 and a brief consideration of possible future developments in unemployment compensation in Great Britain and Germany.

Chapter 2

The theoretical and methodological context of the study

This chapter has two objectives - first, to put the study into a theoretical context and second, to discuss aspects of the adopted method, choice of countries and time period under investigation. In the first section I reflect on the importance of employment and of welfare policies as mechanisms for meeting needs. The nature of income support for the unemployed is discussed as a crucial area of welfare policies. Due to particular characteristics of the 'social risk' covered, there are significant differences between unemployment compensation systems and, for example, invalidity or old-age pension schemes. Also, the structure and institutional framework of unemployment benefits differ between countries. The significance of these differences and their impact on policy changes can best be captured in cross-national studies. Thus, an assessment of a number of studies which have concentrated on issues of unemployment compensation in particular is followed by a discussion of some major theoretical approaches of existing cross-national comparative welfare state research. Recently, the clustering of distinctive 'welfare regimes' or types (see, for example, Esping- Andersen, 1990; Leibfried, 1992, Ginsburg, 1992) has been emphasised as a way of understanding of welfare policies. I will argue that a related approach which emphasises the role of institutional variables (see Hall, 1986; Steinmo and Thelen, 1992) or 'social policy legacies' (Skocpol, 1985b) is an additional helpful perspective in explaining and interpreting benefit changes in West Germany and Great Britain during the period under investigation. Its underlying assumption is that 'the presence of organizational structures is connected to past state policies, thus underlining the need for historical as well as structural analysis if specific state capacities and incapacities are to be understood' (Evans et al., 1985, p. 351).

In the second section of this chapter, the methodological aspects of comparative research are discussed. Analysing more than one country can demonstrate that specific policy choices are not inevitable and that 'different nations may produce distinctive responses to seemingly similar problems

because they locate the problem in different realms of policy discourse' (Anderson, 1978. p. 26). A historically oriented and cross-national analysis can demonstrate that goals, constraints and resources of actors involved in political decisions can vary considerably over time and across countries. It can also show how far policies are influenced by a particular type and structure of welfare arrangement. Comparative research therefore can do more than simply describe how things are done in other countries. It has the potential of gaining explanatory insight by focussing on factors which might be overlooked or regarded as independent variables in national studies. However, there are specific methodological aspects inherent in comparative research concerning cross-national studies of only a few rather than a large number of countries. In contrast to correlational analyses, qualitative historical studies can have certain advantages which have to be weighed up against limitations and constraints. These issues are examined before I go on, in the final part of this chapter, to discuss the research strategy, as well as the selection of the countries, the method of collecting data and the decision to concentrate on the period between the mid 1960s and the end of the 1980s.

Unemployment and welfare

1. Compensation for unemployment - some theoretical considerations

Neoclassical economic theory regards unemployment as being caused by personal shortcomings or failures and therefore as 'voluntary unemployment'. Within this frame of reference the labour market is conceptualised just like any other market, where the interactions of buyers and sellers result in an equilibrium between demand and supply provided there is no external interference. Labour, according to this theory, is merely a commodity sold and bought in markets, the price of which depends on changes in demand and supply between independent agents. The theoretical shortcomings of this approach were emphasised by Polanyi (1978, pp. 108). He argued that labour can only be regarded as a 'fictitious' commodity. Unlike the exchange of goods as the result of a completed transaction in markets, labour power cannot be separated from its bearer, nor can it be stored or made available independently of its 'seller'. Thus, unlike other exchanges, the 'sale' of labour does not imply a transfer of property. Secondly, the interaction between the buyer (employer) and seller

(worker) of labour power is not an exchange between equal agents in markets. Employers have the option of withholding their resource (money) at least for some time or to use it in alternative ways (consumption). Wage earners by contrast are dependent on the successful sale of their resource (labour power) in order to survive. Thus, Polanyi argued, there is a fundamental need to protect labour through social regulation, social insurance and other forms of public intervention.

This notion underlines the importance of a public system of income support for unemployed people as a mechanism for meeting needs, considering that a majority of the population in modern societies obtain income via employment either directly as wage earners or indirectly as a dependant of a wage earner. However, compensation for unemployment is not just an important but a crucial type of social security provision. When an individual is 'properly exonerated from the responsibility for self-maintenance' (Anderson, 1978, p. 28) has always been a particularly controversial question with regard to jobless workers (see Whiteside, 1991 for Great Britain and Pankoke, 1990, for Germany). Granting transfers to people out of work seemed (and seems) easier to justify for periods during which claimants are not expected to work due to circumstances which are relatively easy to objectify such as old-age, invalidity or sickness. By contrast, the cause for becoming and staying unemployed is not only harder to establish and to control administratively but also requires a shift in the perception of unemployment from voluntary to potentially involuntary joblessness outside the control of the individual (Leibfried, 1977; Digby, 1989).¹

The distinctive way in which unemployment benefit claimants are dealt with can be demonstrated by examining eligibility conditions and applied control elements (see Pennings, 1990) in comparison with other social security recipients, for example pensioners. In order to establish the legitimacy of a claim, unemployment benefit recipients are required to demonstrate a close link to the labour market both *ex post* (by proving a sufficient record of labour market participation) and *ex ante* (by showing willingness and availability to return to work). Financially, the particular character of unemployment compensation can be related to the close relationship between its overall cost and the economic situation of a country. A rise in the number of unemployed has a direct effect on the financial situation of the public budget with regard to the loss of tax revenues and national insurance contributions and the increase in state expenditure in the

¹ This aspect is reflected upon more in Chapter 3 where the historical development of national unemployment compensation schemes in Great Britain and Germany is discussed.

form of unemployment benefits and supplementary transfer payments. Also, no other income maintenance scheme is financially influenced by such a wide range of public policies which can potentially avoid the necessity of paying income support in the first place, such as economic policies (e.g. subsidies for regional development or for particular labour intensive industries), fiscal policies (e.g. tax allowances for job intensive investments), 'active' labour market policies (e.g. job creation schemes, placement programmes) and social policies (e.g. early retirement schemes).

These considerations underline both the significance and the controversial nature of unemployment compensation for meeting needs during periods out of work. Historically, the cash nexus between work and income only loosened with the growing strength of labour movements and their potential threat to the political status quo at the end of the last and the beginning of this century. Spells of unemployment became only gradually recognised as a legitimisation of providing 'workless income'. However, even after the wider acceptance of Keynesian economic theory which offered an interpretation of economic policy and social policy as complementary (the consumption function of welfare benefits) rather than conflictual, income support programmes for unemployed people remained controversial. Kaim-Caudle (1973, pp. 201-203) discusses the opposing principles inherent in unemployment compensation. On the one hand there are arguments for relatively generous help (the purchasing power of benefits and communal responsibility) and on the other for low benefit levels of transfers (the 'less eligibility' principle, work incentives and labour mobility).

A system split administratively into unemployment insurance and assistance schemes is a common feature of most developed welfare states and has often been interpreted as a political response to the problem of how to distinguish between the 'deserving' and 'undeserving' 'able-bodied poor' (see for instance Hill, 1974; Creedy and Disney, 1985; Marklund and Svallfors, 1987). However, the theoretical difference between ameliorative and coercive principles is not always reflected in separate programmes (see Sinfield, 1983, p. 430). Furthermore, while the distinction between insurance and assistance schemes is relevant for an analysis of unemployment compensation (Micklewright, 1990b), there are significant differences in relation to the features and the context of these schemes. While all types of national unemployment benefit arrangements alleviate the financial risk of unemployment, there are fundamental national differences in their application, design and principles, and in their interaction with other public policies (see Pennings, 1990). These differences have

generally been overlooked in cross-national analyses of many welfare states and this was a major consideration when embarking on a qualitative comparative study of this particular welfare state programme. However, before I describe the research strategy adopted in this study in more detail, I need to consider some of the existing cross-national research on unemployment benefit policies in order to provide a broader context for the study.

2. Comparative analyses of unemployment compensation policies

There are a number of studies which supply material of ongoing policy changes in unemployment insurance and unemployment assistance schemes either in a cross-national fashion (see OECD, 1984; Calcoen et al., 1988; Euzeby, 1988) or concentrating on one country only (see Atkinson and Micklewright, 1985, 1988; Brown, 1990; Morris with Llewellyn, 1991). Although giving more than straightforward accounts of developments, these studies often remain descriptive rather than concentrating on explanations of policy changes. Yet analyses which are consciously theoretical (e.g. Disney, 1982; Cuneo, 1980) are of limited value for this study due to their tendency to a rather abstract level of discussion and to implicit general assumptions which make it difficult to verify or falsify arguments empirically. Furthermore, the concentration in these studies on single countries raises questions about their applicability to other national settings where the historical development, benefit types and the administration and institutional framework of benefit arrangements are significantly different.

Research on the changes in particular income support programmes over time is rare, especially when it involves benefit arrangements for unemployed people. Unemployment insurance and assistance schemes are often merely described, rather than analysed independently in relation to other policy areas such as economic or labour market policies. However, one example of an empirically oriented quantitative research into unemployment compensation is Alber's study (1984) which analyses 13 western capitalist countries by using indicators such as changes in benefit control mechanisms, generosity, redistributive impacts and state involvement in the programmes over time. In a cross-national perspective, the author shows that benefit arrangements have become more generous and lenient but not more similar. National variations can be explained, he argues, by the 'age' of the respective programmes with 'early' national schemes remaining relatively low in benefit levels and resistant to change, perhaps an indication of the effect of institutional 'inertia' (see below). In contrast with 'functionalist'

approaches of comparative welfare state research (see below), Alber claims that 'economic growth' per se or 'system needs' have not inevitably circumscribed governmental action. Parties and governments 'dispose of a margin for purposive action that allows them actively to shape social reality' (ibid., p. 178). However, the applied quantitative methodology ruled out a more detailed analysis of decisions (and non-decisions) which took place against the background of specific political, economic and institutional contexts within particular countries over time. As I will demonstrate, these factors became especially relevant after the economic crisis in the mid 1970s which might have led to different results, as 1975 is the last year covered in Alber's research.

During the 1970s high unemployment became increasingly concentrated on the less skilled and lower paid sections of the workforce (see, for example, Büchtemann, 1984). This brought about a growing 'erosion' of insurance protection especially in West Germany and Great Britain. Lawson (1985) argues that a main concern of various European governments after the economic recession in the mid 1970s was to contain the costs of benefits and this reinforced the 'erosion' process and gave wider scope to means-tested programmes. However, as I will show in Chapter 8, in the mid 1980s there was an attempt to stop the decline of unemployment insurance coverage in West Germany, whereas in Great Britain the 'erosion' process continued to be politically reinforced. This cannot be explained by cost-saving motives and the intention to foster work incentives alone. Other factors such as institutional differences of benefit arrangements will be shown as having had different policy implications.

Both Alber (1984) and Lawson (1985) examined a relatively large number of countries. The concentration on a few countries can have the advantage of paying attention to particular structural and institutional differences, especially if changes are examined throughout a longer time period. An example of such a qualitative approach is Heclo's study of the creation and expansion of unemployment and old-age pension insurance schemes in Great Britain and Sweden. In accordance with Alber, Heclo (1974) argues against deterministic structuralist explanations for change. Economic growth is seen as a necessary but insufficient condition for the development of insurance systems. However, in contrast to 'social democratic' theories (see below) which perceive the introduction and expansion of welfare programmes as achievements of 'organised labour' ('social policy from below'), Heclo supports an elitist understanding of social policy making ('social policy from above'). Factors usually identified in pluralist theories (see

Dunleavy and O'Leary, 1987) as relevant for policy inputs (party competition, interest groups, elections etc.) did not have a real impact on benefit changes but remained secondary to the influence of an administrative elite. Certain sections within the bureaucratic apparatus are identified by the author as having been the prime determinants for the introduction and expansion of unemployment compensation schemes in both countries. According to Heclo, policy changes can be understood as the result of a process of institutional learning on the part of the administrative apparatus.¹

Heclo's negation of significant 'external' influences on policy choices has been criticised on the grounds of conceptual and methodological aspects (see Wilensky et al., 1987, pp. 405). Skocpol, for example, argues that the author should have examined more closely 'influences shaping the timing and content of distinctive state initiatives' (1985a, p. 12). Furthermore, although arguing against 'structuralist-deterministic' approaches, Heclo's concept of 'political learning' itself seems to suggest a deterministic, linear process of policy development. For example, he interprets the changes in relation to unemployment insurance in Britain in 1966 (see Chapter 5) as a late discovery of unemployment compensation as a labour market policy instrument and as a positive ('learning') step forward. However, his prediction that even closer cooperation between labour market and social security policy would occur as the result of the 'next round of political (non)learning' has, as I will demonstrate, not materialized. Also, the impact of 'environmental factors' such as the recessions in the mid 1970s and early 1980s, labour market changes and the subsequent ascendancy of the political right have challenged the explanatory power of his approach.

Implicitly, Heclo's concept of 'political learning' predicts that unemployment compensation schemes would become more similar over time. This can be related to the theory of convergence which assumes that processes of industrialisation and urbanisation as well as economic development will reduce cross-national differences in social policy arrangements (see Wilensky et al., 1987, pp. 387). In this context, representing two different types or regimes of social security arrangements for unemployed claimants (see below), this thesis would imply that elements of West German benefit characteristics would increasingly be implemented in the British benefit structure and vice versa. However, a closer look at developments over the past 25 years will show that a process of divergence rather than convergence of national benefit arrangements

¹ For details concerning this concept see Heclo, 1974, pp. 306.

can be identified. Nevertheless, Heclo's adopted comparative-historical perspective and the emphasis on 'internal' factors contributing to policy decisions is a relevant consideration for the examination of benefit changes. In this study, I will be demonstrating how political decisions have been influenced by specific 'endogenous' national features in both countries (institutions, benefit arrangements, etc.) which have limited the range of policy options (or at least the perception of available strategies) to a significant extent (see below).

One study which emphasises the significance of different institutional and structural factors for policy changes is the examination of financing frameworks of labour market policies and unemployment benefit arrangements in six industrialised countries by Schmid et al. (1987; see also Schmid and Reissert, 1988). The authors criticise existing comparative research for neglecting the significance of 'historically ingrained institutional arrangements as influences on both the formation of political will and the effectiveness of political programmes' (Schmid and Reissert, 1988, p. 126). Institutions are conceptualised as 'congealed political will' (ibid., p. 127) which function as 'filters' for the formation of political interests and incentives. It is argued, for example, that the financing institution of labour market policies in West Germany inhibited a more effective pursuit of active labour market instruments in the 1970s and 1980s because of its contribution-based and fragmented nature.¹ The institutional incongruity of the financing system fostered a 'crowding out of active labour market policy by unemployment benefits' (ibid., p. 145) and prevented a diminished budget burden as a result of reduced unemployment entirely accruing to institutions responsible for financing these policies. Furthermore, it is argued that the contributory principle in West Germany made cuts in benefit rates difficult. During times of scarce resources, the West German system tended to restrict eligibility by excluding those claimants from insurance cover who lacked a strong labour market attachment while for those who remained entitled to benefits, the income loss was marginal. By contrast, primarily tax-financed systems which provide mainly flat-rate benefits were less protected against benefit cuts. The authors argue that, for example, eligibility to unemployment benefits in Great Britain hardly changed between 1975 and 1982 whereas benefit levels as a proportion of average incomes declined substantially (1988, p. 141, table 4).

¹ For a more detailed description of the West German institutional arrangements for the financing and administering of labour market policies and unemployment insurance benefits see Chapter 4.

However, this result seems questionable with regard to entitlement rules for insurance benefits which have changed since the mid 1970s (see Atkinson and Micklewright, 1988) and especially in the second half of the 1980s (see Chapter 8). Also, the German systems of *Arbeitslosengeld* and *Arbeitslosenhilfe* were apparently treated as equivalent to unemployment (insurance) benefits and supplementary benefits in Great Britain. As will be shown in Chapter 4, this is doubtful because *Arbeitslosenhilfe* can be regarded as a 'hybrid' type of benefit containing both insurance and means-tested elements. Also, the British supplementary benefit (later Income Support) system seems closer to the German system of *Sozialhilfe* which is a third form of financial assistance for (not only unemployed) people in need. The characteristics of these benefit types will be discussed later but it should be noted that a clear-cut equivalence between the (two-tier) system in Great Britain and the (three-tier) arrangement in West Germany does not exist. I hope to reduce this methodological difficulty by defining and identifying 'as precisely as possible, exactly what is being compared with what' (Higgins, 1981, p. 17). Another problem relates to Schmid and Reissert's tendency to over-emphasize the role of financial institutions. It seems questionable that it is financing arrangements which, in the last instance, 'determine' whether those affected by unemployment will receive any wage compensation at all, and if so the level and duration of benefits' (ibid., p. 127, my emphasis). This view seems to ascribe too much influence to organisational structures and tends to 'internalise' (Seifert, 1984, p. 51) wider factors with regard to economic and political constraints and policy objectives of national governments.

However, for the perspective adopted in this study (see below) Schmid and Reissert's perspective remains instructive since it stresses the necessity of examining 'early policy choices' that shaped national institutions which in turn influenced assumptions and political resources for later policy developments (Heidenheimer et al., 1990, p. 230). A central objective of this study is to demonstrate that policy changes in unemployment compensation schemes were affected by distinctive national social security traditions and institutional structures. According to Toft (1991, p. 14), 'the existing political-institutional framework shapes and defines the agenda for considerations of reform as well as the state's capacities for political action'. However, before I describe in more detail the approach adopted in this study, I will put the analysis of unemployment benefit arrangements in a wider theoretical framework of cross-national research on the development and differentiation of welfare policies.

3. Cross-national research of welfare states and welfare regimes

Welfare state policies - defined in a broad sense as all public policies affecting the social status, life chances and income situation of individuals and families - have long been of interest to students of economics, sociology, politics and social policy. This interest might be due to the steady increase of social spending as a share of public expenditure in most industrialised countries especially after World War II (see Glennerster, 1990). However, the end of this expansionary trend after the economic recession in the mid 1970s which led to the so-called 'crisis in the welfare state' (OECD, 1981) attracted even more interest in comparative research into the creation and differentiation of state social policy programmes. Some major aspects of these studies are briefly outlined below.¹

Two early strands of research are the 'structural-functionalist' paradigms including the 'logic-of-industrialism' perspective and the functionalist neo-Marxist approach. The former regards economic growth and demographic change as the two central reasons for the introduction and expansion of welfare states (e.g. Pryor, 1968; Wilensky, 1975). Industrialisation and urbanisation are common features in developed countries which can explain cross-national similarities and convergence in the development of state welfare programmes. Initially this approach was relatively successful in its emphasis, arguing that what might appear as national variations in welfare state development could in fact be explained by differences in the level of economic development or demographic stage. Neo-Marxist theorists, for their part, stress primarily the need for the state to respond to requirements of capital accumulation as well as to demands made by the working class for more economic and social rights in advanced capitalism (e.g. O'Connor, 1973; Gough, 1979; Offe, 1984). The state must resolve two contradictory functions of securing 'capital reproduction' as well as 'social reproduction' by legitimising labour control. A basic problem with this approach has been in testing the embedded abstract theoretical concepts empirically in order to explain, for instance, cross-national differences (see Pampel and Williamson, 1989, ch. 2).

Both the 'logic of industrialism' and neo-marxist approaches, although obviously controversial in their implications and theoretical explanations, overlap in their claim that political actors, parties, institutions etc. do not signify very much in shaping the outcome of social policies. As a consequence these theories

¹ For more detailed overviews see Jones, 1985; Skocpol and Amenta, 1986; Wilensky et al., 1987; Alber, 1987, ch.2; Pampel and Williamson, 1989, ch.2 and Pierson, 1991.

emphasise cross-national similarities rather than variations. More longitudinal studies and more sensitive research designs have raised some doubts, undermining confidence in this perspective as a 'sufficient guide to causal processes' (Skocpol and Amenta, 1986, p. 133). In contrast, Skocpol and Amenta (*ibid.*) identify a cluster of welfare state research studies which take 'politics' not only as an independent variable but stress that 'politics outweighs economic variables in determining national social policies' (p. 136). The 'social democratic' or labour movement theory has been the most prominent perspective within this paradigm (for an overview, see Shalev, 1983; Pierson, 1991). Broadly, this approach assumes that organised labour is the most influential actor in shaping welfare state policies. The strength of this movement is dependent on the relative 'power distribution' (Esping-Andersen and Korpi, 1984) between capital and labour. Ideally, labour can positively influence welfare policies if social democratic parties can rely on a long-lasting majority in parliament and a favourable institutional arrangement of social policy programmes. There has been some evidence supporting this thesis but also some doubt in considering the heavy concentration on Sweden as 'idealtyp', the failure to take account of different ideologies and strategies of national labour movements and of the creation and expansion of welfare state programmes by liberal and conservative parties (see Shalev, 1983). Baldwin (1990), for example, has shown that social class and 'risk categories' did not necessarily coincide. A more detailed investigation can reveal that the historical paths and variety of national social insurance programmes were shaped by the 'interplay among the interests of many different groups whose concerns cannot invariably be fitted into the binary logic of the laborist interpretation: working-class pressure confronting middle-class resistance' (*ibid.*, p. 289).

A relatively new perspective in welfare state research emphasises the impact of organisational structures and effects of previously enacted policies on policy changes. Instead of conceptualising the welfare state simply as a response to the needs of capital or else as the product of industrialisation, a central research focus of this perspective is the investigation of 'the process by which social issues move onto the policy agenda, what policy proposals are accepted, which rejected (and why), and how and by whom such policies are implemented' (Pierson, 1991, p. 99). Although previous research had also identified state authorities as key agents (see, for instance, Flora and Alber, 1981) this 'state-centered' model (Pierson, 1991, p. 98) conceptualises the state both as an 'autonomous actor' as well as a 'structure and set of policies' (Skocpol and

Amenta, 1986, p. 147). This approach, 'tracing the political consequences of already instituted policies or set of policies' (ibid., p. 149) maintains that enacted social policies strongly influence future policy decisions through processes of 'policy feedback'. Thus, this perspective stresses the diversity of nationally welfare institutions and of embedded principles in the delivery of benefits and services as 'social policy legacies' (Skocpol, 1985b, p. 311), influencing perceptions of and conflicts between political actors (policy makers, officials, interested groups etc.). As I will demonstrate, the approach of 'social policy legacies' and the emphasis on the role of national social policy arrangements appears to be important for an explanation of policy changes in unemployment compensation and I will return to a fuller discussion of this perspective below.

The role of diverse national welfare arrangements has increasingly been recognised as^a significant factor for explaining developments of welfare policies (see Evans et al., 1985, p. 357; Heidenheimer et al., 1990, pp. 230; Esping-Andersen, 1990, p. 107) and recent categorisations of welfare states into regimes or clusters (see Esping-Andersen, 1990; Leibfried, 1992, Ginsburg, 1992) can be regarded as an attempt at taking historical developments and distinctive institutional arrangements into account for the comparative interpretation of policy changes and the assessment of different roles of welfare states with regard to social stratification. Yet the idea of categorising welfare states and of developing distinct types according to certain criteria is not a new one. Titmuss (1974), for example, distinguished three different social policy models. In brief, the 'residual' model emphasises the market (and the family) as the predominant location for meeting needs. The 'industrial achievement-performance' model provides support on the basis of merit, work performance and productivity and only the 'institutional redistributive' model envisages a welfare state which is a fully integrated institution in society and a major provider of universalist benefits and services.

The debate on welfare typologies continued in the 1970s (see, for example, Furniss and Tilton, 1977) and in the 1980s (e.g. Therborn, 1987a) but more recently Esping-Andersen's contribution (1990) seems to have become the focus of a revived interest and vigorous debate on the usefulness and adequacy of clustering welfare states into three or more 'regime' types.¹ As already implied above, a central argument in this thesis is that distinctive institutional arrangements for the provision of unemployment benefits in Great Britain and

¹ See Castles and Mitchell, 1990; Mishra, 1990; Holmwood, 1991, Mitchell, 1991; Taylor-Gooby, 1991; Leibfried, 1992 and Ginsburg, 1992.

West Germany have been important influences on policy changes (see below). Thus, a brief discussion of Esping-Andersen's typology, and some of the criticisms it has provoked, seems appropriate before I discuss the application of some of the concepts in this study.

Esping-Andersen (1990) offers a distinction of three ideal typical regimes of welfare states (*ibid.*, pp. 26 - 33). In 'liberal' welfare states the logic of markets is dominant. Benefits are mainly means-tested and stigmatising while social insurance provisions are modest. The state encourages the private provision of welfare (market or occupational) by guaranteeing only minimum benefits and subsidising non-state forms of welfare schemes. Examples are the USA, Canada, Australia and, 'increasingly' (Esping-Andersen, *ibid.*, p. 33), Great Britain.

In historical 'corporatist-statist' welfare states (France, Germany, Austria, Italy) the preservation of class and status differentials is predominant. The redistribution of welfare provision is 'negligible' and private forms of market or occupational benefits play only a marginal role. Historically the Church has had a significant influence on the manifestation of welfare principles and traditional family relations are encouraged by the exclusion of non-working wives from social insurance and the encouragement of motherhood.

The third type is the 'social democratic' welfare regime. Typical examples are Sweden and Norway. Here the principle of universalism is dominant as well as the promotion of 'equality of the highest standards, not an equality of minimal needs as was pursued elsewhere' (Esping-Andersen, *ibid.*, p. 27). Market welfare is suppressed, there is a strong commitment to full employment and benefits are graduated in accordance with earnings as a way of securing universal support for social insurance systems. Historically, it is argued, the strength of working-class political mobilisation was important for the development of this type of welfare regime in contrast to the corporatist type where a state bureaucracy imposed a different type of welfare programmes.

Esping-Andersen's characterisation of the 'quality' of welfare states is based on their effect of 'decommodification', i.e. on the provision of options to maintain a livelihood 'without reliance on the market' (*ibid.*, p. 22). This concept is by no means clearly defined or consistently applied throughout the book. Perhaps more importantly, as Taylor-Gooby (1991) points out, it focuses on formal employment while the effect of welfare policies on the distribution of 'unwaged care work' and gender imbalances is not a central element of the categorisation. Taylor-Gooby also questions the label 'liberal' welfare state for

the United Kingdom which he considers to be an 'anomalous case' where elements of 'social democratic universalism co-exist in unstable combination with the Anglo-Saxon tradition of selectivity and class-divided provision' (ibid., p. 96).

Various other critics have questioned the adequacy of Esping-Andersen's typology and the inherent assumptions concerning the effect of welfare states (see, for example, Mitchell, 1991). With regard to redistributive impacts rather than welfare characteristics, Mitchell (1991) argues that Esping-Andersen's location of some countries is 'seriously miscast' (ibid., p. 188). Concerning the respective effect and efficiency of income transfer policies (social security and taxation) on the reduction of pre-tax poverty gaps (the distance between poverty lines and median income levels) or on the reduction of income inequalities, the 'guaranteed minimum benefits in Australia and the UK are more highly de-commodified than the Esping-Andersen index would lead us to believe' (ibid., p. 189). The author proposes a fourth category of 'labourist' welfare states (including the United Kingdom, Australia, New Zealand and Ireland). In addition she argues that 'while labour party power in these countries has been weaker than in the Scandinavian countries it is important to note that many of the reforms which have shaped present day transfer policies have been either initiated by, or enacted with, labour party support' (Mitchell, 1991, p. 189).

This argument points to problems in adequately categorising welfare states and questions the unilinear interpretation of the historical developments of welfare states which does not seem to allow for breaks or shifts. As Holmwood (1991) emphasises, Esping-Andersen distinguishes between the 'corporatist-statist' type which has its origin in the late 19th century and other welfare regimes which can be characterised as 'social democratic' only with regard to the era after World War II. From the perspective of the early 20th century, instead of three distinct welfare regimes, 'the distinction would be between 'corporatist' arrangements and more 'liberal' arrangements' (Holmwood, ibid.). 'Social democratic' welfare regimes, as identified by Esping-Andersen, 'are all post-war developments out of "liberal" regimes' (Holmwood, ibid., p. 294). Indeed, as Baldwin (1990) has shown, the character of Scandinavian welfare policies did not originate from concerted pressure on the part of the labour movement. Instead, the 'unique features of the Nordic welfare states' can be traced back to the end of the last century and were strongly influenced by the 'interests of the politically emergent agrarian middle classes neither to be excluded from the benefits of social policy, nor to bear more of the costs than could be displaced to their urban opponents'

(Baldwin, 1990, p. 289). Also, in the 1940s, it would have been problematic to characterise new British social insurance arrangements, encapsulating principles of universalism and comprehensiveness, as 'liberal' and to contrast them with 'social democratic' social policies in Scandinavia.

Of course, Esping-Andersen had ideal-types in mind, allowing that most welfare states exhibit a mix of the properties assigned to particular types. Yet the question here is one of an adequate understanding of both the forces that shaped welfare policies and the historical development of welfare states which, according to Esping-Andersen, can be distinguished in three distinct trajectories but might perhaps be better understood if broken down into processes before and after World War II (see Baldwin, 1990; Holmwood, 1991). However, one of the main contributions of Esping-Andersen's study is that it points to the necessity of a comparative and historical investigation of the political and social contexts which have influenced the developments of national welfare policies. Furthermore, as will be outlined below and more fully in Chapter 4, despite apparent similarities in the provision of monetary support for unemployed claimants in Great Britain and West Germany (e.g. a split in insurance and assistance arrangements) it seems appropriate to treat the systems of unemployment benefit provision in the two countries as distinct national regimes. It is interesting to note that diverse principles and institutional features have proven to be resistant to change. As will be discussed in Chapter 3, the basic characteristics of current benefit arrangements can be traced back to the 1920s and 1930s. Even at times when major restructurings in other social security programmes occurred (see Baldwin, 1990), unemployment compensation arrangements remained basically unscathed. A central argument in this study is that institutional contexts have had a considerable influence on policy changes by guiding, shaping and constraining the perception of policy options. In order to illustrate this perspective further I will briefly describe some of the major differences between respective national social security systems in general and distinct institutional features and principles with regard to benefits for the unemployed in particular.¹

¹ A more detailed discussion of the historical origin and development of the different social policy traditions in Great Britain and Germany with regard to unemployment compensation is provided in Chapter 3.

4. Social policy legacies and the role of the institutional arrangements

German and British welfare state arrangements are often characterised as representing two distinct types and traditions of social policy institutions (see Schulte, 1985; Esping-Andersen, 1990; Leibfried, 1992). As outlined earlier, the assumption of a unilinear trajectory of welfare states as a basis for the clustering of distinct and stable welfare regimes seems questionable. Nevertheless, with regard to social security arrangements in Germany and Great Britain distinct principles can be traced back to the time when social insurance schemes were first introduced at the end of the last century and the beginning of this (see Mommsen and Mock, 1981; Ritter, 1983; Hennock, 1987). Almost from the start, despite opposition to early plans from Bismarck, the notion of a strict 'equivalence' between contributions and benefits and the strong representation of contributors (unions and employers) in the administration of separate funds became a cornerstone in German social insurance system.¹ The Social Democratic Party at first envisaged a more egalitarian system but was anxious not to antagonise better-paid workers who successfully insisted on a system of graduated benefit rates according to wage levels (see Ritter, 1983, pp. 40).

These basic principles have been prevalent ever since. In brief, (West) Germany's current core social security, i. e. social insurance, institutions provide earnings-related benefits such as pensions, sickness or unemployment benefits which are granted in return for earnings-related and earmarked contributions to separate insurance funds, made by employees and employers. While government ministries have a supervisory role, these funds are separate legal entities with budgets outside the state finance. They are controlled and administered by boards which consist of representatives of unions, employer organisations and (not always) public authorities.² Access to and levels of what are officially regarded as 'wage-replacement' benefits are dependent on a lengthy and continuous period of insured employment. This 'wage-labour centered social policy' (Vobruba, 1990) provides little incentive for better paid workers to opt for non-state provision at times of sickness, unemployment or old-age since the system is based on the preservation of status differentials and a perpetuation of

¹ It is interesting to note that Bismarck's original plans for old-age and invalidity schemes had similarities to the social insurance schemes later introduced in Great Britain. For example, in the first draft of the German Social Insurance Bill from 1887 he proposed low, flat-rate contributions and benefits not differentiated according to former earning levels but discriminating between men and women and according to the length of time contributions had been paid (see Hennock, 1987, p. 185).

² As far as unemployment compensation policies are concerned, the main characteristics and present arrangements will be illustrated in Chapter 4.

market income positions. However, for lower paid workers outside of insurance coverage (or with a less permanent labour market attachment), there often only remains the resort to means-tested social assistance benefits. Based on the principle of preventing poverty, these benefits are not only markedly lower than average insurance benefits but are based on a means test which can be extended to family members not actually living in the same household as the claimant. Also, instead of standard national regulations and central funding, benefits are administered and financed at a local level. Different aspects of this split between superior 'workers social policy' and the inferior 'poverty social policy' in West Germany have been well documented by Leibfried and Tennstedt (1985a).

By contrast, the division between insurance and means-tested benefit arrangements in Great Britain seems less pronounced and has decreased over the past decade or so.¹ Both types of benefit are centrally administered and transfers are generally paid as relatively low but universal flat-rate benefits, with some exceptions such as the state earnings-related pension scheme (SERPS) and the earnings-related supplement to short-term insurance benefits such as sickness and unemployment benefit, which was in operation between 1966 and 1982 (see the subsequent analysis). In contrast to West Germany, social insurance contributions are not earmarked but paid into the National Insurance Fund which is controlled by the central state. It serves as the source for all types of insurance benefits and to a small extent also for the National Health Service. Flat-rate insurance benefits can be increased by additions for dependants but personal amounts of insurance benefits are often only marginally above means-tested benefit scale rates which are financed by general taxation. In fact, for unemployed claimants with dependent children, means-tested Income Support rates are actually higher than a combination of flat-rate insurance benefits and child benefits. Thus, in contrast to West Germany, better paid workers in Great Britain face a large drop in earnings when becoming unemployed, sick or entering retirement due to relatively low uniform insurance benefits.

Within the narrower context of unemployment benefits, institutional differences relate mainly to benefit arrangements, benefit types, the role of insurance benefits and the number of groups with vested interests in policy decisions. Firstly, while in Great Britain both unemployment insurance and assistance benefits are administered and funded centrally, unemployed claimants in West Germany might receive three different types of transfer payments administered either from the Federal Labour Institute or from local authorities.

¹ As far as the situation of unemployed benefit claimants is concerned, see Clasen 1992.

Also the funding of these benefits is fragmented in West Germany. Resources can stem from either earmarked contributions, from general taxation or from municipalities and local authorities. Secondly, the main benefit types for unemployed claimants in West Germany have been earnings-related insurance benefits while local social assistance transfers have had a very limited role - at least up to the 1980s (see Chapter 6). In Great Britain, insurance benefits have always been flat-rate (except for supplements between 1966 and 1982) and have played a relatively low and decreasingly marginal role as the single form of income support for unemployed people. Finally, due to the (wage-replacement) character of insurance benefits in West Germany and the particular and fragmented funding arrangements, the number of groups with different and often opposing interests is relatively large. As the study will show, changes in benefit regulations affect governments, the Federal Labour Institute, local authorities, unions and employers in different ways and coalitions of interests between these groups can shift. By contrast, in Great Britain the number of groups with vested interests is smaller and arguments in relation to benefit changes for unemployed people rarely leave the Parliamentary arena. In comparison with West Germany, the lack of apparent interest on the part of the unions (compared with pension issues), is conspicuous and can, as I will argue, be related to benefit characteristics and institutional arrangements.

Consistent with the 'institutional approach' adopted in Hall's comparative research in economic policy-making in Great Britain and France, the starting point for this study was the observation of 'structural consistencies' behind the persistence of 'distinctive national patterns of policy' (Hall, 1986, p. 18). The assumption here was that the above described distinct national arrangements, principles and institutions (or policy legacies) have to be regarded as relevant factors which constrained or facilitated policy changes and are thus necessary elements for the explanation of cross-national variations in policy developments. In line with Hall's (1986) perspective, institutional structures are regarded as playing two major roles. Firstly, they can affect the degree of power that 'any one set of actors has over the policy outcomes' (Hall, *ibid.*, p. 19). We might expect, for example, that the influence unions in West Germany have over changes in benefit regulations is stronger than in Great Britain due to distinct financing arrangements, benefit characters and the participation in the institution which administers the unemployment insurance fund (see Chapter 4). Secondly, institutions influence 'an actor's definition of his own interests, by establishing his institutional responsibilities and relationship to other actors. In this way,

organizational factors affect both the degree of pressure an actor can bring to bear on policy and the likely direction of that pressure' (Hall, 1986, p. 19). For example, we might assume different policy outcomes in the two countries at times of similar pressures (e.g. rising unemployment and budget deficits) due to the anticipated impact of certain policy options on groups outside of the government (e.g. local authorities or unions).

There seems to be some overlap between the 'institutional approach' and 'state-centred' explanations of welfare state policies discussed earlier. Both perspectives, for example, emphasise that new policies are often influenced by the 'procedural legacy and political lessons of older policies in related fields' (Hall, 1986, p. 16). Heclo's 1974 study on the development of unemployment and pension insurance schemes in Great Britain and Sweden can be regarded as an example of the state-centred approach which stresses that policy formulation should be understood as a process of social learning on the part of administrative elites. However Hall (1986) rejects this view as 'highly indeterminate' since the question remains 'what lessons will be learned from the past, and which are embodied in future policy? After all, lessons do not come unambiguously from history' (ibid., p. 16). Furthermore, state-centred theories seem to be in danger of overemphasising the state's capacity to determine policy patterns and to underestimate the role of social groups outside of the state apparatus. States, Hall argues, 'do not seem to be as autonomous from societal influence as state centric theories imply' (ibid., p. 17). Rather, the state should be viewed as a 'network of institutions, deeply embedded within a constellation of ancillary institutions associated with society and the economic system' (ibid., p. 17).

The significance of national institutional frameworks has recently been underlined by a number of researchers,¹ and the institutional perspective proved relevant for this study. However, for two reasons this approach should not be regarded as an independent or sufficient explanation for policy change. Various 'external' influences are expected to have played a significant role in decisions to alter benefit regulations. Changes in the level of unemployment as well as economic indicators (e.g. economic growth rates, inflation rates, public debts) in combination with dominant economic policy doctrines (generally, 'Keynesian demand management' or austerity policies) can be expected to have influenced policy developments. Similarly, wider policy objectives have to be considered, such as a perceived need to redeploy labour or to lower wages and (for reasons

¹ See Ashford, 1978, 1990; Evans et al., 1985; Skocpol, 1985a and 1985b; Hall, 1986; Scharpf, 1987b; Thørbørn, 1987b and Steinmo and Thelen, 1992.

of 'moral hazard' and work disincentives) also benefit levels. Generally, labour market policies in the broader sense (including so-called 'passive' benefit payments) might have been altered according to either surplus supply or demand for labour (see Seifert, 1984). Also, the changed perception of unemployment as a social problem and as a political threat (see Sinfield, 1992) can be expected to have affected policy changes. Political ideologies fostering the public (or published) view of unemployed claimants either as victims of economic processes and political failures or as 'scroungers' and 'workshy' (Golding and Middleton, 1982; Deacon, 1976, 1978) might have been used (or even orchestrated) to justify political action (and non-action) directed at unemployed benefit recipients. Nevertheless, the study demonstrates how, in response to similar pressures (e.g. high unemployment, budget deficits), national policy responses were diluted in ways 'consistent with existing institutional and policy legacies' (King, 1992, p. 219).

Secondly, while it emphasises the role of institutions, this perspective should not be treated as separate from a 'politics matter' approach (see above). After all, the 'presence or absence of organizational structures is connected to past state policies' (Evans et al., 1985, p. 351). Thus, not only should institutions be envisaged as 'congealed' political decisions, structural arrangements and benefit principles (e.g. from earnings-related to flat-rate) can also change, especially at times when class coalitions and risk categories shift as Baldwin (1990) has shown. However the stability of institutional arrangements and basic principles in unemployment provision in the two countries has to be recognised. The objective here is to examine the impact of these stable institutional factors and their role as necessary (but not sufficient) elements for the understanding of policy change. In sum, in an attempt to integrate diverse perspectives and to 'move away from single-factor deterministic theories' (Heidenheimer et al., 1990, p. 230), the perspective adopted in this study is intended to allow a proper assessment and explanation of policy developments since the mid 1960s.

Methodological aspects and the research strategy

1. Advantages and limitations of cross-national comparative research

It can be argued that it is essential to compare in order to reach generalisations and theoretical explanations. Higgins (1986) maintains that comparative

research, whatever the discipline, can contribute to existing knowledge since theoretical perceptions are limited if 'they can only be applied or understood in one national context' (ibid., p. 239). As a consequence, cross-national research can force us to 'revise our interpretations to take account of cross-national differences and inconsistencies that could never be uncovered in single nation research' (Kohn, 1989b, p. 77). An examination of how diverse countries have responded to similar problems can contribute, for example, to the debate concerning how far social policy developments are a matter of political choice and how far policy options are constrained by economic, political and institutional factors. On a pragmatic level, comparisons as a 'tool rather than a theory' (Rose, 1986, p. 8) can be used to improve the awareness of people involved in policy decisions. Comparing nations can foster a better understanding of the domestic policy environment and can broaden ideas as to what may be done in response to particular problems (see also Higgins, 1981, pp. 12; 1986, p. 240).

However, comparative studies of welfare states often adopt a very general approach and include a large number of programmes. They tend to concentrate on aggregate expenditure as the single dependent variable rather than analysing individual benefit arrangements or other qualitative aspects of specific programmes separately. Existing research on specific welfare state schemes in a comparative and historical perspective is still limited and often concentrated on 'welfare effort', i.e. expenditure on particular programmes (see, for example, Pampel and Williamson, 1989) and/or on correlational analyses (see, for example, Myles, 1989) to assess the 'quality' of particular income maintenance schemes. Recently, there has been a recognition that the concentration on quantitative 'correlational approaches' and on analyses of a large number of countries may 'lead to theoretical conclusions that do not necessarily apply if welfare effort is disaggregated and specific institutional features of welfare states are studied' (Alber et al., 1987, p. 462). More qualitative and historical comparisons of institutional aspects of particular social policy systems in a few countries are advocated which should eventually allow a 'closer synthesis between the correlational and case-history approach' (ibid, p. 467) resulting in a better understanding of the development of social policies (see also Ragin, 1989; Heidenheimer et al., 1990, p. 12).

But advantages of comparative research in general have to be weighed against difficulties. Problems of conceptualisation and definition of terms have been discussed by a number of scholars (see Przeworski and Teune, 1970; Kaim-

Caudle, 1973; Higgins, 1981; Øyen, 1990) and ignoring questions of compatibility can easily result in misleading interpretations (see Bolderson, 1990). The risk of not comparing 'like with like' might be greater in large number studies relying on quantitative data (Ragin, 1989) as compared with qualitative research on a few countries only which should be more sensitive to cross-national differences. However, in both cases a careful and precise definition and identification of similarities and differences is required to reduce these difficulties.

Identifying differences of functionally equivalent schemes (e.g. social insurance programmes) and of policy changes requires knowledge of the national political, institutional and cultural context in the countries studied (see Øyen, 1990, p. 6). Again, this problem might be more easily overcome in intensive case studies of a few countries which should allow for a more detailed identification of politically controversial aspects and a more adequate determination of the 'nature and impact of political processes' (Alber et al., 1987, p. 464). The perspective adopted in this study is a historically oriented in-depth approach of two countries and the investigation of the development of particular policy programmes. One of the advantages of this type of cross-national research is, according to Rodgers (1978), that it makes students 'appreciate the immensity of the task, and be better defended against the superficiality and over-simplification of so many policy studies' (ibid, p.4). However, while cross-sectional correlational analyses might be in danger of 'going naive' (Alber et. al, 1987., p. 467), i.e. suffering from equivalence problems in the operationalisation of variables, qualitative in-depth research, while being more sensitive to the meaning of data ('going native'), might run the risk of not 'achieving the social science goal of general explanation' (ibid., p. 468).

The limitation of drawing generalisations (see also Higgins, 1981, p. 165; Wilensky et al., 1987, p. 384; Esping-Andersen, 1990, p. 106) in case study approaches has to be recognised. In this study I concentrate on two countries only, covering a period of approximately 25 years or so. Results might not allow broad generalisations beyond West Germany and Great Britain and deduced statements about changes in other policy areas in these two countries might be seen as speculative. However, the research design chosen here can be justified in at least two ways. Firstly, there has been a recognition that more in-depth qualitative comparisons with a focus on developmental patterns of particular welfare state programmes are needed (see Alber et al., 1987, p. 464) in order to

complement (and, as I would add, question) assumptions and findings of large scale quantitative correlational studies (see also, Ragin, 1989; Esping-Andersen, 1990). But also, as Kohn emphasised, specific national characteristics and institutional features should be examined first before the 'pivotal distinguishing characteristics of nations become variables in the analysis' (1989a, p. 23). From this perspective, conceptualising nations as the 'context for analysis' can be regarded as an instructive preliminary step before 'we are ready to translate "nations" into "variables"' (ibid.).

Secondly, a comparison of Great Britain and West Germany seems not only feasible and suitable (see below) but findings should at least allow some tentative generalisations. As briefly outlined earlier, traditional patterns of social security arrangements and principles differ markedly, and this was one of the reasons to compare these two countries. This study will investigate whether and how far these different institutional types have influenced policy decisions since the mid-1960s. If policy changes can indeed be related to these different systems, cautious predictions about the future development of unemployment compensation in Great Britain and (the now unified) Federal Republic of Germany can be made (see Chapter 9). Also, the research design and findings might prove to be instructive for similar research on income maintenance schemes in other countries with similar social policy principles and types of benefit arrangements (see below).

2. Comparisons between Great Britain and West Germany

The comparative strategy adopted in this study is an examination of countries in which 'the number of common characteristics sought is maximal and the number of not shared characteristics sought, minimal' (Przeworski and Teune, 1970, p. 33; see also Evans et al., 1985, p. 356). In general, both countries (before the unification of West Germany with the former GDR) had populations of similar sizes with labour forces of over 25 million people. Social and political structures and the historical conjuncture between the mid 1960s and the end of the 1980s were all fairly similar. Both nations are large economies (measured in GDP) and, as 'open' trading nations, were influenced by international economic trends in similar ways - particularly since the 1960s. Generally, economic pressures occurred at the same times as did changes in the adopted economic policy doctrines. Both countries experienced a phase of welfare backlash or 'crisis in the welfare state' (Mishra, 1984) at the end of the 1970s and early 1980s. Economic growth rates, inflation and unemployment levels fluctuated in

roughly parallel patterns, although between different maxima and minima (see Chapter 4). Also, by applying conventional indicators, the living standard in both countries is high with differences as a matter of degree, West Germany ranking above Great Britain. Politically, the second half of the 1960s and long periods during the 1970s were dominated by social democratic (socialist) parties while during the 1980s there was a hegemony of conservative parties.

Of course, there are important political and economic differences. As regards to the political constellation of the governments, in Great Britain one-party administrations have dominated in contrast to centre-right or centre-left coalitions (with the Liberal Party as junior partner) in West Germany. Having participated in office for long periods since World War II (and continuously since 1969) the relatively small German Liberal Party (mostly below 10% of the votes) has exercised an influence on shaping the substance of policy which should not be underestimated (see Schmidt, 1989). In addition, Schmidt (*ibid.*) emphasises the role of the country's federal structure and of institutionalised industrial relations in impeding radical policy change in West Germany. Furthermore, it can be argued that the role of independent agencies outside the government has been pivotal in the development of macroeconomic policy which has been less erratic than in other countries. At times frustrating governments' pursuit of more expansionary policies, the anti-inflationary bias of the German Central Bank (*Bundesbank*) in particular seems to have contributed to a relatively stable economic policy environment compared with Great Britain where fiscal and monetary policy-making is concentrated at the Treasury and the importance of financial markets appears to 'contribute strongly to the short-termism of British economic policy-making' (Dunleavy, 1989, p. 265).

There are other differences between the two countries. With regard to its economic and employment structure, West Germany has remained much more a 'traditional industrial society' (Esping-Andersen, 1990). In the 1980s, the share of employment in its industrial sector was the largest of all OECD countries and had contracted far less than in Great Britain (Leibfried and Ostner, 1991, p. 172). At the same time, the service sector, a main provider of female employment in other economies, grew comparatively little and remains smaller than in all other large OECD countries. Related to this, the German labour market is more gender segregated than in Great Britain, where a larger share of women are in paid employment. Leibfried and Ostner (*ibid.*) have shown that the comparatively more pronounced division between male paid employment and female informal care work in West Germany is supported by social policy in

general (e.g. half-day schools) and in particular a social security system which stresses the link between benefit entitlement and employment records. As indicated earlier, the core social security (social insurance) systems guarantee status maintenance by granting monetary transfers depending on levels of earnings and length of labour market attachment. By comparison, the British welfare system generally provides low (and flat-rate) levels of transfer payments for the elderly, sick and unemployed.

The differences which are of particular relevance to this particular project are the institutional features of unemployment compensation (see Chapter 3 and 4). While all modern welfare states have a form of institutionalised public system of income support for the unemployed, administrative arrangements, social security principles and benefit types differ significantly between the two countries under investigation. Furthermore, basic institutional differences have remained largely intact since their introduction in the first half of this century. Even major social security changes (e.g. in the 1940s in Great Britain and in the 1960s in West Germany) did not alter general characteristics.¹ This seemed opportune for an analysis since, as outlined earlier, one of the guiding ideas for this study was the question how far 'administrative arrangements, policy legacies, and the established ties of state organizations to policy intellectuals and to politically active groups help to explain the various responses of Western welfare states to similar strains' (Evans et al., 1985, p. 357).

It would have been interesting to extend the research to a third country with yet another set of institutional benefit arrangements. As discussed earlier, in this study I am comparing a particular income maintenance programme typical of a welfare state where status and market differentials are preserved by fragmented social insurance schemes (West Germany), with a welfare system, where modest insurance and means-tested benefits predominantly cater for low-income earners (Great Britain). Problems with regard to clustering welfare states in relation to their historical transformation, which can include breaks and shifts, have been discussed earlier with reference to Esping-Andersen's typology of welfare regimes (1990). However, considering the specific area of unemployment benefits and the relevant period for this study, an extension of the research to a country with yet another set of welfare arrangements for jobless people might have proved useful. The inclusion of a country such as Sweden or perhaps Denmark (since it experienced high unemployment levels similar to the two

¹ It would be interesting to investigate reasons for this 'institutional inertia' (Heidenheimer et al., 1990) but this is beyond the scope and focus of this research.

countries under investigation here) might have produced interesting results since institutional arrangements (union-run schemes) and benefit types, levels and duration of benefit coverage differ significantly from structures in both West Germany and Great Britain.¹

However, while a future analysis of a third country would seem a fruitful extension of this research, there were practical as well as conceptual reasons which led to a comparison of Great Britain and West Germany 'only'. Firstly, within the constraints of a three-year funded research project, the research scope of this study would not have been feasible by including a third country. Either the period under investigation would have had to be shortened or the intensity of the evaluation of different types of data (see below) would have had to be decreased. Also, for a detailed qualitative and historical cross-national analysis of this kind, a fairly good knowledge of the social security systems and other policy fields in the countries under investigation is required. This was facilitated by the author having spent a year in Great Britain as an undergraduate student in 1985/6 before returning to the country to embark on a postgraduate research project in 1988. Being fairly familiar with the two countries also helped with regard to existing (and establishing new) contacts with relevant academic and other experts. Furthermore, sufficient language skills are required for the collection and especially the interpretation of data in order to increase the awareness of cultural differences and social 'meanings' of terms which cannot readily be expressed in another language (see Heidenheimer, 1986; also Hantrais and Anger, 1985).

3. Description of the research

The main purpose of this final section is to discuss the method and procedures applied in this project. As outlined above, the broad background for this study is the tradition of comparative research on welfare states. However, as was implied earlier, pure socio-economic or abstract functionalist perspectives seem to be inadequate for the purpose of this research. Whereas the former will be a starting point and the latter might be helpful in order to interpret the impacts of social policies, neither approach seems sufficient for an analysis of political processes in an attempt to unravel 'political forces that generate changes' (Banting, 1979, p. 1).

¹ See Toft (1992) for a comparison of the basic economic principles in unemployment compensation schemes and their redistributive impact in Great Britain, Denmark and West Germany.

The research strategy adopted in this study can be regarded as two-dimensional, with a horizontal axis across countries and a vertical historical dimension. The latter comprises a period of about 25 years up to the end of the 1980s. The choice of this time period was not accidental. A clearer interpretation of policy developments seems possible only when a longer time span is investigated during which economic, political and social conditions vary. Thus, an investigation of benefit changes since the introduction of public schemes might be considered as ideal. However, for reasons of the research design (see below) and of available time and resources, I restricted the analytical focus of this study to the time between the mid 1960s and the late 1980s. A description of the historical introduction and development of public systems of unemployment compensation in Great Britain and Germany up to the 1960s is provided in Chapter 3. The subsequent analysis starts with the 1960s when unemployment became an important political issue again after a continuous decline of unemployment rates since the early 1950s in both countries. The implications of the unification of Germany in 1990 will not be part of the research - although some observations are made in the concluding chapter.

Between the mid 1960s and the 1980s, relevant political and economic variables changed significantly such as the level of unemployment, the perspective of unemployment as a social and political problem, the macro-economic context and economic policy doctrines adopted by governments. While major benefit changes throughout this time will be examined, four distinctive time periods of about three to four years each were singled out for in-depth analyses. The method of examining 'decisive historical breaks' (Alber et al., 1987, p. 463), during which 'state apparatuses are constructed or reconstructed' (Evans et al., 1985, p. 361), has been identified as a most effective strategy for the analysis of state policies. For this research, the periods were selected on the basis of the frequency and the significance of changes in benefit levels, benefit durations, eligibility criteria etc. but also with respect to major political and economic developments.

In the first period (the second half of the 1960s) I assess the implications of the first significant rise in unemployment figures in Great Britain and West Germany after World War II and the perception by both governments of a need to 'redeploy' labour to potentially growing industries. While these were main factors which influenced political decisions in unemployment compensation, policy outcomes differed significantly in the two countries (see Chapter 5). The political reaction before, during and immediately after the economic crisis in the

mid 1970s which resulted in a substantial rise in unemployment, provides the background for the analysis of policy decisions (and non-decisions) during the second period (Chapter 6). Chapter 7 contains an analysis of policy implications in response to the second oil price shock in the early 1980s. This period, the third, is also important with regard to the shift in political power from Labour in Great Britain and the Social Democratic Party in West Germany to Conservative parties who gained and maintained a political dominance throughout the 1980s. In Chapter 8, the fourth period, I investigate the impact of the conservative hegemony amidst high unemployment and rising levels of long-term unemployment during the second half of the 1980s. Each of these chapters starts with a description of economic and political developments, followed by an analysis of policy changes in Great Britain. The same sequence is applied to West Germany and each chapter ends with a comparative interpretation of policy changes during the particular period. Finally, the overall period since the mid 1960s is assessed in Chapter 9 within the light of the theoretical aspects discussed earlier in this chapter, followed by a tentative prediction of potential future developments in both countries.

As outlined earlier, a central aim of this study is to identify the motives of policy makers and the constraints on them in order to gain a better explanation of policy developments with regard to unemployment compensation programmes. Thus, while a 'prime intention' (Jones, 1985, p. 24.) of this research is descriptive and interpretative, results should also contribute to a better explanation of policy developments which may complement or challenge results of large scale correlational approaches. The adopted research method consists primarily of an analysis of available documentary material but also of interviews. An initial task was to generate a chronological sequence of legislative policy changes in the two countries since the mid 1960s. This was achieved by an examination of available official documents (see official publications in bibliography) and other material (e.g. Atkinson and Micklewright, 1988). Based on this information I was able to identify the most significant benefit reforms which were then related to major economic and political changes in the two countries in order to decide on time periods which were to be analysed in more detail. While the four time periods under investigation do not fully coincide between the countries (see Chapters 5 to 8), they overlap to a large extent which indicates national similarities with respect to broad economic and political developments (see Chapter 4).

In order to examine these time periods in depth, I evaluated various types of primary and secondary documentary sources. Two research visits to West Germany in 1989 and 1990 of about 4 months each allowed the same method to be followed in both countries. Firstly, I examined official records of debates in Parliaments and Committees with regard to benefit reforms. Secondly, I analysed documentary material such as publications by Governments, Ministries, Committees etc. in both countries. I also studied speeches by policy makers involved in relevant decisions which were delivered at conferences and party meetings, as well as interviews given to newspapers, etc. Thirdly, responses to policy changes by 'interested' groups such as unions, employer representatives and other organisations such as the Child Poverty Action Group (CPAG), published in newspapers, magazines, periodicals and journals, were evaluated. Already at this stage the comparatively easier access to information about the policy position of employer organisations and especially unions in West Germany became apparent. Unions there, for example, comment regularly on social policy issues in specific journals which also contain regular reports of research on and discussion about social security matters. By contrast, access to regular comments and positions of both unions and employer organisations in Great Britain was less easy to obtain. The main source here was minutes of annual meetings and comments published in newspapers. Furthermore, interpretations of events and research on policy developments by academics in both countries were evaluated. In short, the research focus for this study is an assessment of a large number of different publications and printed material by various organisations, groups and individuals (including diaries of former Ministers) who have directly or indirectly participated in or commented on policy decisions with regard to unemployment compensation.

I had no access to archives containing files of, for example, discussions within Cabinets or Ministries. The method adopted here might therefore be regarded as provisional and as involving the risk of leading to inaccurate conclusions since interpretations relying on the sources mentioned above might be considered as less objective than findings based on archival material. It remains perhaps doubtful on the other hand whether archival sources would have revealed contests and conflicts more accurately than available material since policy decisions were often influenced by informal talks which were not recorded. From this perspective, an analysis of available primary and secondary sources seemed not only 'reasonable' and 'realistic' (Jones, 1985, p. 28) but also not necessarily inferior.

In order to gain some access to non-recorded decision making processes and also to take account of more perspectives and interpretations of events, I conducted a number of interviews with politicians, civil servants and other informants (see Appendix C). In each case I first wrote to prospective informants and provided some information concerning the general research interest and the specific developments and discussions during particular time periods. The interviews were semi-structured and not formally recorded and lasted between 45 minutes and two hours. I accepted the wish of a number of informants not to attribute any comments directly to them. Indeed I have refrained from any direct quotations by respondents throughout this study.

I experienced some problems in this part of the research. Some ministers and politicians felt unable or unwilling to provide information concerning the research topic. Because of the length of the overall time period under investigation, a number of potential informants did not feel able to comment because they had retired or moved on in the course of their career and the events were too distant. Indeed, it became obvious that some policy changes and debates were not always remembered accurately. On one occasion, a former Minister categorically denied that it was his party (and his Department) which introduced a number of significant policy changes, and blamed the successive government for these. This (perhaps extreme) example is mentioned here merely in order to underline one of the problems involved with interviews concerning events 'receding in time, with an attendant forgetfulness, acknowledged or unacknowledged, on the part of those who were involved' (McPherson and Raab, 1988, p. 68).

Despite these reservations, the interviews represent an important aspect of the research. They allowed an insight into different perceptions (or 'assumptive worlds') of policy makers and other informants. Interviews rather than official documents can disclose alternative policy options which were (or were not) considered but not put into practice at the time. Of course, taking account of a number of different 'vantage points' by different participants does not lead to something which can be considered an 'independent perspective of events' (McPherson and Raab, *ibid.*, p. 63). This was not the objective and such a perspective seems unobtainable because all information remains a selective interpretation of developments by participants. After all, even official records, which might be considered as a 'reality test' (*ibid.*, p. 63) for oral accounts, are selectively written and archived.

Thus, while interviews were not the principal source of evidence for this study, their function was essential. Oral information by respondents was utilized to strengthen or challenge hypotheses and to elaborate interpretations of events. This was facilitated by the fact that the interviews were conducted relatively late in the course of the research. Knowledge of benefit changes acquired by then enabled me to evaluate responses from a more informed perspective. I cannot claim that the number of interviews conducted could not have been extended. If more time and resources had been available or the detailed documentary evaluation of written material as the main source of evidence had been replaced with a large number of extensive interviews of policy networks or communities in relation to unemployment compensation, different results might have been produced. However, even if problems with regard to the reliability of information concerning the length of the time period under investigation and the reluctance of current policy makers and civil servants to disclose information were overcome, such a research strategy would not necessarily have been superior to the one adopted here. Neither the evaluation of written sources nor the analysis of information gathered through extensive interviews can produce absolutely valid and verifiable judgements about the policy-making world which is 'itself dependent on our prior substantive judgements about the nature of that world, about what it contains and where we are in it' (McPherson and Raab, 1988, p. 66). While this is a problem in any kind of sociological and historical analysis, it is up to the reader to decide whether the 'mixed' strategy adopted in this study (with an emphasis on an examination of printed sources) has led to a description and analysis of events which can contribute to a better understanding of policy changes in unemployment compensation.

In sum, the adopted method in this research rests primarily on the evaluation of documentary material of various kinds, supplemented by a number of interviews in both countries. By combining both types of data collection it was hoped that changes in policy debates and in perceptions of policy options would be revealed. As the following chapters will outline more fully, policymakers' perspectives not only differed according to political allegiance and interests but also changed within the period under investigation. Furthermore, there were significant differences with respect to both the policy options which received serious consideration and the reactions to policy changes between the two countries. This, it will be argued, has to be related to institutional differences or 'policy legacies' in the provision of social security benefits for unemployed

people. In the following chapter I will discuss the origins and developments of these legacies in more detail.

Chapter 3

The history of public unemployment compensation systems in Great Britain and Germany

National unemployment insurance systems were introduced in almost all industrialised countries as latecomers after other social insurance systems covering injury, ill-health and old age had been in operation for some time. This was, as, for example, Leibfried (1977) points out, not accidental but due to structural reasons inherent in the particular nature of the 'social risk' of unemployment. The 'able-bodied poor' had traditionally been treated as undeserving claimants of public support (see Digby, 1989) and to change this practice required a 're-definition of unemployment' involving the transfer of the responsibility for being (and staying) jobless from the individual to the national labour market - which also had first to be established. Alber (1984) has argued that the break with the liberal economic doctrine of non-intervention in labour markets was relatively easier to make for 'secondary risks' resulting from the wage earner status, i.e. for sickness, accident and old age. An insurance against the 'actual risk status itself' (Leibfried, 1977) was harder to justify since it would directly affect the interaction of demand and supply in the labour market by strengthening the bargaining position of workers. In addition to these structural obstacles, practical considerations such as the question of the 'incalculability of the specific risk' of unemployment (Weisbrod, 1981, p. 189), the unpredictability of economic fluctuations and, as a result, unemployment levels, made unemployment insurance a particularly contentious issue.

It would be interesting to relate these conceptual deliberations to empirical developments of particular national schemes. Why, for example, was Great Britain an exception in not only introducing the first compulsory national unemployment insurance scheme but also doing this practically simultaneously with health and old-age insurance systems? Such an investigation however would go beyond the scope of this study. The, more modest, purpose of this chapter is to provide a brief description of the origin and development of national

schemes for the support of unemployed people in the two countries under investigation.¹ The objective is to illustrate the different conditions and political situations for the creation and subsequent reforms of national unemployment compensation schemes. This should allow the reader to place the analysis of developments since the mid 1960s into a wider context. It should also strengthen a central argument of this study which claims that, once national benefit arrangements and benefit features were introduced, policy changes were very much influenced by previously enacted policies and by particular institutional characteristics (or welfare legacies).

1. Developments before World War I

Long before the term 'unemployed' was officially recognised and administratively used in Great Britain in the 1880s (see Fulbrook, 1978, p. 118), support funds for workless people existed in a sporadic and fragmented fashion. The reform of the Poor Law in 1834 and the abolition of out-door relief made it practically impossible for the 'able-bodied' poor to receive any form of income support from local authorities. The workhouse, based on the principle of deterrence and on a strict distinction between 'deserving' and 'undeserving' poor, often remained the only legal alternative to gainful employment (see Fraser, 1973). As a form of response, self-help groups were set up by workers. The associations of foundrymen and typesetters were the first to introduce support payments for their redundant members in the 1830s. The number of workers' associations which administered funds for their unemployed members grew steadily, covering about 2.4 million mostly better skilled and paid workers (ca. 13% of the total workforce) by 1908 (Heclo, 1974, p. 68).

In Germany, perhaps due to the delay in the process of industrialisation and urbanisation, similar self-help groups were not set up until the second half of the 19th century. After the introduction of a 'travel subsidy' in search of work in the 1840s, the typesetters association was the first to grant assistance to their workless members in 1879 (Niess, 1982, p. 151). By 1894, 15 out of 46 central associations provided voluntary support for unemployed members and two years later the second German trade union congress recommended the general extension of such schemes which, it was hoped, would contribute to a stable

¹ More detailed discussions of different historical periods in the development of the British unemployment assistance and insurance systems can be found in Gilbert, 1966 and 1970; Harris 1972, Heclo, 1974, Deacon, 1976 Fulbrook, 1978 and Whiteside, 1991. For the origin and extension of German unemployment compensation schemes see Niess, 1982; Faust, 1981 and 1987; Preller, 1978; Adamy and Reidegeld, 1987 and Pankoke, 1991.

membership and improve bargaining positions by reducing the wage depressing effect of a 'reserve army' of workless people (Adamy and Reidegeld, 1987, p. 375).

A succession of economic crises resulted in a growing number of unemployed workers who were not covered by union schemes and in 1896 the city of Cologne introduced support for 'unemployment during the winter months' (Niess, 1982, p. 150). Similar experiments with the purpose of alleviating the rising cost of Poor Law assistance to workless people were also made elsewhere, but the funds regularly reached their financial limits. By 1914 only 16 cities administered municipal unemployment support schemes. Also union-run schemes faced rising expenditure which led German trade unions to demand a public subsidy to their unemployment insurance funds in accordance with the so-called Ghent system which was in operation in various municipalities throughout Europe in the last two decades of the 19th century. However, employer organisations categorically rejected (on political grounds) any state support for schemes administered by unions.

Other policy initiatives in response to unemployment received more support. By 1893 about 3,500 union-administered labour exchanges existed in Germany (Adamy and Reidegeld, 1987, p. 376) and during the last decade of the 19th century local communities started to get involved in the administration and control of these schemes (Pankoke, 1991, p. 120). Employer organisations were sympathetic towards an extension of such organisations which was symptomatic of the general perception of labour exchanges as an 'undisputed necessity' (Faust, 1981, p. 154). It enabled the Prussian Trade Ministry to issue a decree in 1899 which led to the introduction of employment offices jointly supervised by representatives of employers and employees in almost all cities (Pankoke, 1991, p. 122).

In Great Britain, the last decades of the 19th century were hit by cyclical economic depressions. As outlined above, union-administered schemes but also 'local authorities and charitable enterprises had moved into the vacuum left by the official system of poor relief in providing help for the unemployed' (Whiteside, 1991, p. 44). Unemployment as a social problem and political issue became more visible due to various factors. Social enquiries into the living conditions of the working class by Charles Booth and Seebohm Rowntree revealed the threat of a loss of income for families dependent on wages paid on a daily basis, while alternative options for subsistence were no longer available. The gradual formation of a national labour market allowed the administrative

collection of labour statistics - covering workers in more or less regular forms of employment (and thus only a section of the workforce). Employment became an institutional category and, consequently, allowed the administrative creation of unemployment as a social status. In as early as 1886, the Board of Trade started to issue 'official' unemployment statistics which, as outlined above, should be interpreted as indicating trends rather than displaying the exact scope of unemployment. While average living standards rose gradually, the loss of daily wages meant a significant reduction of family income which explains the fact that rising levels of unemployment during the 1890s and early years of the 20th century led to mass demonstrations by jobless workers (Heclo, 1974, p. 78).

In comparison with the German situation before World War I, unemployment was apparently a much more severe problem in Great Britain. According to Board of Trade figures (underestimating the real extent of unemployment) jobless rates were about 10% in 1886 and 9% in 1908/09. In Germany, when unions started to compile statistics in 1903, early unemployment rates related to organised workers and therefore, as in Great Britain, figures reflected only a section of the workforce affected by joblessness. They do however at least indicate trends, showing unemployment rates of over 1% as an annual average between 1904 and 1913 with peaks of just under 3% in 1908 and 1913 (see Ritter, 1983, p. 89 and footnote 233). This and the firm belief in the economic doctrine of non-interference in market forces might explain why the German association of employer organisations, in as late as November 1913, categorically denied that unemployment 'as a general phenomenon' existed in Germany (quoted in Niess, 1982, p. 153)

The extremely hard winter of 1904/05 led to a further increase in the number of workless people in Great Britain and a resultant political outcry. In response, the Conservative government introduced the Unemployed Workmen Act in 1905 which provided public work schemes. This proved insufficient however and after the general election in 1906, MPs of the victorious Liberal Party began to argue in favour of a more substantial state interference in the labour market and social affairs in order to alleviate the consequences of capitalism. On a ministerial level this New Liberalism was represented by Winston Churchill and foremost by David Lloyd George with his plans for the introduction of national insurance schemes covering ill-health and retirement pensions (see Ritter, 1983). However, while there was public pressure and willingness on the part of the Liberal Party to do something about unemployment, the government had no plan of their own (Heclo, 1974, p. 81). Instead, after the depression in 1907,

Churchill, as Head of the Board of Trade, left the task of planning a national unemployment compensation scheme to his permanent secretary Hubert Llewellyn Smith and his assistant William Beveridge.

Influenced by a visit to Germany, Beveridge was convinced that a network of labour exchanges was not only a necessary component against combatting unemployment but also a precondition for the adequate organisation and control of unemployment insurance. However, a compulsory contributory system according to the German health and old age pension schemes, introduced in the 1880s, was at first regarded as 'Un-British' with respect to the degree of regulation of individuals (Heclo, 1974, p. 81). Later, the Board of Trade team recognised the advantage of the contributory principle considering both financial aspects and the possibility of reducing the reliance on means-tests. Yet, unlike German social insurance schemes involving earnings-related transfers to and from insurance funds, flat-rate contributions and benefits were favoured. A graduated system according to need was seen as an 'unacceptable inquisition into the worker's affairs and far too reminiscent of the Poor Law' (Heclo, 1974, p. 86) while a graduation by income was regarded as unnecessary. In contrast to German precedents of old age and invalidity insurance schemes which were intended to 'appeal primarily to the strong, not to the weak' (Hennock, 1987, p. 185), British 'health insurance, like British unemployment insurance, was intended to supersede the Poor Law as the protection against want caused by those factors over which the individual had no personal control' (ibid., p. 185). Higher paid workers should remain able to obtain additional support from union-run funds. Indeed, as Deacon (1976) points out, state benefits in the case of unemployment were deliberately not presented as being sufficient on their own. Their function was rather to 'supplement other resources, particularly savings and trade union benefits' (ibid., p. 11). This was significantly different from the eventual introduction of unemployment insurance benefits in Germany which, similar to old age pensions, were to be financed by graduated contributions in relation to earnings and to provide higher benefits for higher paid workers (see below).¹

With regard to the administrative framework in Great Britain, 'unemployment insurance was undoubtedly constructed on the basis of trade union experience

¹ However, according to Hennock (1987), German precedents of old-age pensions as well as invalidity and sickness insurance played a major role in the British debate in relation to the introduction of social insurance schemes. Three attitudes were dominant amongst British policy-makers: revulsion (e.g. against the bureaucratic character of German schemes), imitation (especially concerning elements which would reduce costs) and rivalry (the attempt to 'outdo' German schemes, making British social insurance more ambitious than it would otherwise have been) (see Hennock, ibid., p. 176/177).

and practice..' (Hennock, 1987, p. 190). However, the Board of Trade's preference was both to include non-unionised workers in the scheme and to involve employers in the financing of the system. Benefits were to be financed on a tripartite basis by employers, employees and a subsidy by the state. As Heclo has pointed out, the state subsidy to the national unemployment insurance fund can be regarded as a price for including workers in the scheme who were least able to pay higher contributions (1974, p. 86). Since employers had refused to contribute to union-run schemes while unions had favoured a Ghent system excluding non-union workers, this funding structure was a compromise acceptable to the majority of unions (see Ritter, 1983, p. 93). Employer organisations seem to have been too fragmented to present a substantial opposition to the plan. In order to keep the overall costs of the scheme down, a waiting period of 1 week and a maximum duration of benefit payment of 15 weeks per year were fixed. Also, Winston Churchill and Hubert Llewellyn Smith argued that the operation of 'impersonal insurance regulations' based on individual contributions would both reduce possible abuse of the scheme and avoid the inquiry into personal affairs required by Poor Law regulations. However, the eventual introduction of the first national unemployment insurance scheme in 1911 was very much an experiment covering only three organised trades with in total less than a sixth of all workers in the industrial and commercial sector (Ritter, 1983, p. 93).

2. The introduction of unemployment insurance in Germany

As indicated earlier, the pre-war situation in Germany was different from the British example as far as the perception but also the scope of the problem of unemployment was concerned. Also, despite frequent discussions from the 1880s onwards among social scientists and interested civil servants concerning the question of state provision for workless people (see Pankoke, 1991), ideological differences between unions and employers' organisations were too entrenched to be able to compromise on a national level. As Faust (1981, p. 157) put it, 'the internal political immobility resulting from opposing forces drifting into deadlock had a restricting effect, against which the Imperial authorities knew other means than carefully to steer a middle path'. Less disputed programmes such as labour exchanges but also some employment creation schemes on a local level were expanded instead.

However, although union schemes covered about 3.2 million workers by 1913 the temporary mass unemployment at the beginning of World War I of over

20% (see Klees, 1984, p. 104) demonstrated the inadequacy of these systems to the *Reich* government. In 1914 the government introduced subsidies to local authorities for supporting workless people. Yet, due to labour scarcity during the war, there was no progress on the question of unemployment insurance until 1918. Shortly after the Armistice however about 6 million soldiers were seeking work in addition to 3 million people who had worked in war production industries (Adamy and Reidegeld, 1987, p. 377). Fearing potential social disruption and political instability, the government's response was to order local authorities to introduce a 'workless assistance' scheme (*Erwerbslosenfürsorge*), separate from Poor Law assistance. It applied to all people older than 14 years who had become jobless as a result of the war and who were able and willing to work. The *Reich* government and the *Länder* contributed to the costs of the new benefit. An upper benefit level and a standard duration of entitlement were fixed and benefit levels varied according to gender, age and family status. Workless assistance was originally intended to be a provisional scheme but in fact, despite a large number of reforms and amendments, it remained in existence until the introduction of unemployment insurance in 1927. Until 1922 the dependence on this new benefit declined steadily but hyperinflation and a severe economic crisis in 1923 resulted in a rapid increase to over 4 million recipients by the end of the year (Faust, 1987, p. 265).

In October 1923 the scheme became more akin to existing social insurance systems with regard to its financing structure and principles. As in the health and old age pension insurance schemes, employers and employees (who were covered by these systems) were now required to pay equal contributions to the unemployment relief system which represented a proportion of individual earnings. These contributions covered 90% of total costs. Also, a minimum contribution record of three months was fixed as the qualifying requirement for the benefit which remained means-tested. A number of subsequent changes were made but these were not able to prevent an increasing number of unemployed workers from exhausting their benefit entitlements and from being transferred to welfare assistance provided by local authorities. This was regarded by the government as a considerable threat to political legitimacy. One response was the introduction of a secondary form of unemployment support ('crisis assistance') which was administered by municipalities but financed to a large extent by the *Reich*. However, criticisms against this solution to the growing problem of unemployment were widespread and the demand for an introduction of a national unemployment insurance scheme became more dominant after another severe

economic crisis in 1925/26. Weisbrod points out that by then 'the importance of structural causes for the labour market crisis was generally recognised' (1981, p. 191). Unemployment rates among union members had reached 13% in 1924 and 18% in 1926 (Petzina, 1986, p. 32) while unemployment rates for white collar workers were even higher (Weisbrod, 1981, p. 191).

It is interesting to note that the position of the unions and employer organisations towards unemployment insurance had changed by the mid 1920s (see Preller, 1978, p. 369). In the early 1920s the unions had opposed an insurance system on the grounds that unemployment compensation was perceived to be a national responsibility and should therefore be paid out of general taxation. But after the *Reich* decree which introduced compulsory contributions in 1923 (see above), an insurance scheme was demanded which would guarantee a right to benefits based on contributions. By contrast, before 1923 employers had favoured an insurance system, financed by employees, rather than the 'demoralising' public assistance scheme. However, after compulsory contributions were introduced it was feared that a move towards an insurance system (without a means-test) was likely to be introduced which would increase contributions rates further. If insurance was inevitable, employer organisations argued, elements of a means-test should be retained to reduce costs. But this was rejected by the unions and especially by municipalities who, even before 1914, had already demanded the implementation of compulsory national insurance along the lines of existing social insurance schemes, excluding them from contributing to the cost of the system (for details see Faust, 1987).

Thus, by the mid 1920s the question appeared not to be whether unemployment insurance should be introduced but which form it should take. Institutional conditions were favourable since it was generally agreed that the scheme should be administered through existing labour exchanges because of administrative expediency and of the link to other forms of dealing with the effect of unemployment such as job placement and employment services. Employers and employees were already required to finance benefits to a large extent and, in line with other, already existing, social insurance systems both employers and unions demanded that they should jointly be in control of unemployment insurance which should be administered by a separate body outside of the state apparatus. This consensus between workers and employers, combined with the low levels of unemployment in 1927 (reducing costs), was paramount for the overwhelming acceptance of the Act of Labour Exchange and Unemployment Insurance (AVAVG) in Parliament which, with a broad agreement between the

major parties and opposed only by the communists and nationalist parties, was implemented in July 1927. It was administered by a *Reich* Office for Labour Exchange and Unemployment Insurance which was controlled by a tripartite board of employers, employees and public authorities but supervised by the Ministry of Labour. All employees with compulsory health insurance or national white collar insurance schemes were automatically covered and were required to pay earmarked earnings-related contributions. Equal amounts were paid by their employers while the *Reich* government only subsidised the scheme in the case of deficits.

The new benefit structure took existing benefit arrangements into account. For those who had exhausted their entitlement to insurance benefits (or had been in insured employment for at least 13 weeks) the former means-tested crisis assistance remained in place. It was also administered by the *Reich* Office but largely paid out of the government budget and only to a smaller extent by municipalities. Benefits could be drawn for not longer than 39 weeks and the applicability of the scheme could be restricted to particular occupations and areas. As a last resort, locally administered and financed welfare support remained in place for all people in need. Thus, by 1927, the fragmented three-tier structure of public benefits available for unemployed claimants which, basically, still exists in Germany today (see Chapter 4), had been established. In fact, these structural arrangements proved not only to be resistant to political change but had a significant influence on benefit changes by shaping political interests and coalitions and thus affecting policy decisions (and non-decisions) to a considerable extent (see below and Chapters 5 to 8).

3. Great Britain - the interwar period

Despite an initial rise in unemployment in August 1914 the needs of the British Army and munitions industry resulted in very low numbers of people out of work for the duration of the first World War. In anticipation of post-war industrial problems the coverage of unemployment insurance was extended in 1916 by another 1.1 million workers (Heclo, 1974, p. 105) but some trades refused to pay contributions and protested successfully against their inclusion in the scheme (Deacon, 1976, p. 12). The end of the war confronted the government with a rapidly worsening unemployment problem. The political threat of a mass of jobless soldiers and munitions production workers led to a hasty introduction of an out-of-work donation scheme for the first six months of unemployment which was later extended (see Gilbert, 1970).

This non-contributory benefit ran parallel to the existing unemployment insurance scheme and was available to all adults who were registered as seeking work. Supplements were paid for dependent children. However, the financial repercussions of the scope of post-war unemployment were apparently underestimated. By the time it had been abolished (March 1921) the cost of the temporary scheme borne by the Treasury had increased by almost twice the expenditure originally anticipated. On the other hand, the cabinet's fear of working class unrest and public disorder seem to have been well founded considering riots by demobilised soldiers, stoppages and threats of national strikes (see Heclo, 1974, p. 108). The concern for social stability, in combination with high but fluctuating unemployment levels throughout the 1920s, led to a reliance on income support schemes for unemployed workers as one of the main mechanisms for pre-empting demands for radical change (Gilbert, 1966) and to a continuation of out-of-work donations in a 'chronicle of successive extensions through "uncovenanted", "extended", and "transitional" benefits by all governments to relieve the unemployed' (Heclo, 1974, p. 112).

According to Gilbert (1970), the unrest of ex-soldiers and demands by unions and Labour to make transitional benefit arrangements 'came up at nearly every Cabinet in the last two months of 1919 and, above all else, was responsible for the carelessness with which the Unemployment Insurance Bill of 1920 was conceived' (ibid., p. 67). To prevent trouble and not to antagonise the unions and labour interests, a more comprehensive unemployment insurance scheme was devised which included all workers covered by national health insurance. Thus, with the 1911 Act as a blueprint, insurance coverage was widened from 4 million to 11.4 million workers with the exception of some sectors such as agriculture and domestic services. The maximum duration of benefit receipt remained 15 weeks with a one to six ratio of benefits to contributions. The widespread acceptance of this change was also due to the low cost involved at the time. In November 1920, when the Act came into force, 'only' 500,000 workers were registered as unemployed. Just half a year later however two million people were out of work (Fulbrook, 1978, p. 152). This triggered a series of amendments such as a relaxation of the 'one in six' rule (see above), increases in the amount and duration of benefits and the continuation of 'uncovenanted' benefits for those without the required contribution record for qualifying for insurance benefits. The effect of these concessions was a continuously rising deficit in the Unemployment Insurance Fund amounting to over £110 million by 1931 despite rises in state subsidies of £37 million (see

Deacon, 1976, p. 18).¹ According to Deacon (*ibid.*), successive governments responded to the dilemma between the problem of rising costs and the inability of transferring workless people to the Poor Law (out of fear of social unrest) by a 'tightening-up' of the conditions for the qualification for insurance benefits. Most noticeable was the introduction of the 'genuinely seeking work test' in 1922 which shifted the onus of proof of being unable to find suitable work from the state onto the individual claimant.

By 1924 the Labour Party had gained political power for the first time in British history and introduced a major change in unemployment insurance regulations. The level of the 'standard benefit' was raised (but paid for only 26 weeks) and claimants who had exhausted their right to this benefit could receive 'extended benefits', provided specific contribution conditions had been fulfilled, 'for as long as he or she remained unemployed' (Deacon, 1976, p. 36) without undergoing a means-test. Fierce criticism in Parliament against this change led to a further tightening of the 'genuinely seeking work test' and to restricting the applicability of the reform until June 1926. The new Conservative government (elected in 1926) ordered an enquiry into the unemployment insurance scheme conducted by a committee chaired by Lord Blanesburgh (see Davison, 1985, ch. 5).

Proposals submitted to the committee can shed some light on the different attitudes towards unemployment insurance at the time. The Employers' Confederation favoured a total abolition of extended benefits, a reduction of benefit rates and a fixed ratio between the duration of benefit entitlement and the number of contributions made (see Deacon, 1976, p. 43; also Whiteside, 1991, p. 75). Those excluded from insurance cover would be referred to the Poor Law. The Association of Poor Law Unions proposed in addition the abolition of extended benefits. Standard benefit rates should be increased and paid for a longer period while those without insurance benefits should be able to apply to means-tested relief paid for by the state but administered locally by Poor Law Guardians. The TUC and the Labour Party were against any form of Poor Law relief for unemployed workers. They believed that standard benefits should remain free from means-testing, be payable for the entire period of unemployment and that extra costs should be met by increased contributions by the Treasury.

Following the Blanesburgh Report in January 1927, the government decided to grant standard insurance benefits for longer periods provided at least 30

¹ In 1923 and 1924 debts actually decreased but subsequently increased again (see Gilbert, 1970, p. 86).

contributions had been made in the previous two years. Extended benefits were eventually to be abolished but transitional benefits were granted to those who could not meet the contribution conditions and had been in insured employment for 'a reasonable time' (see Heclo, 1974, p. 116; Deacon, 1976, p. 58). All others had to resort to the Poor Law. The committee's argument that any additional costs should be met by an increased subsidy from the Exchequer to the insurance fund, covering a third of the overall costs, was successfully opposed by the Treasury.

The second Labour government, taking office in June 1929, repealed the 'genuinely seeking work test' but was faced with a sudden and steep increase in registered unemployment from 1.3 million people in December 1929 to 2.4 million (19.6%) a year later. The cost of unemployment insurance increased accordingly and between 1929 and December 1931 the deficit in the insurance fund tripled (Heclo, 1974, p. 119). The financial and economic crash in 1931 and its implication on public finances in general and unemployment insurance in particular was a major factor for the split within the Labour Cabinet. According to Gilbert (1970, p. 166) deep financial debts and the cost of unemployment insurance had become a 'public question' in 1931. Proposals for reductions in unemployment compensation were regarded as insufficient by opposition parties while even a modest reduction proposed by the Cabinet Committee was 'unpalatable' to the Labour movement. With regard to benefit rates, the 'Cabinet finally parted about equally divided upon whether there should be a 10 per cent cut or no cut at all' (Gilbert, *ibid.*, p. 169). Eventually, this led to the resignation of the Labour government and to a coalition between the Conservative and the Liberal Party. The incoming government responded to the impact of the world economic crisis by introducing orthodox economic policies. Cost-saving measures in unemployment insurance included higher contribution rates, lower benefit levels and the replacement of 'transitional' benefits with means-tested benefits administered by local assistance but funded by the Treasury.

As proposed in an interim report by a Royal Commission, appointed in 1930, Public Assistance Committees became responsible for administering assistance benefits based on a household means test (Morris *with* Llewellyn, 1991, p. 14/15). However, public opinion reacted with increasing hostility against treating all unemployed without insurance cover as 'able-bodied' paupers under the Poor Law. There were frequent demonstrations and hunger marches against the rigid and bureaucratic application of benefit scale rates and the operation of the household means test (Whiteside, 1991, p. 80). Meanwhile, the Treasury

opposed giving a 'blank cheque to local assistance committees' (Heclo, 1974, p. 123) and in the autumn of 1932 civil servants started to prepare a measure to 'establish a government network of relief officers' that would supersede the local authorities (Gilbert, 1970, p. 178). A Bill was drafted in 1933 which set up two non-political boards. An Unemployment Insurance Statutory Committee was created which took over the responsibility for keeping the unemployment insurance scheme financially sound and an Unemployment Assistance Board took over the control of all unemployed on temporary benefit or on Poor Law relief (Fulbrook, 1978, p. 159), thus transferring unemployment assistance from the local to the national level. With reference to Neville Chamberlain's phrase (then Chancellor of the Exchequer), the government attempted to take the critical question of unemployment compensation 'out of politics' by granting the Unemployment Assistance Board 'discretionary powers' to set assistance rates centrally and to make additional payments in case of exceptional needs (see also Prosser, 1981).

The Unemployment Assistance Board assumed responsibility for recipients of transitional benefits in January 1935 which resulted in an immediate uproar and public demonstrations occurring 'almost daily' (Gilbert, 1970, p. 184). The cause was that payments of the new scale rates were often smaller than benefit paid by the old assistance authorities which implied drastic cuts in incomes of many unemployed claimants. There were protests from the opposition and also from Conservative backbenchers 'demanding publicly the resignation of the Unemployment Assistance Board' (Gilbert, *ibid.*). In February the government reacted to these protests by allowing officials to use either Unemployment Assistance Board scale rates or Public Assistance scales - whichever was more favourable to unemployed claimants. A year later, more generous benefits were introduced, partly influenced by the reduced level of unemployment (making benefit increases less costly) but, according to Gilbert, also reflecting a new attitude towards the unemployed of 'accommodation and friendliness' (*ibid.*, p. 188).

4. Germany: unemployment insurance after 1927

In 1927 the contribution rates to the AVAVG in Germany had been fixed so that up to 900,000 unemployed workers could be supported. However, by 1928 unemployment had already reached 1 million and continued to increase - fuelled by the world economic crisis - to an annual average of 3.5 million in 1930 and a maximum of 6.13 million registered people out of work (representing 43% of



unionised workers) in February 1932 (Adamy and Steffen, 1982, p. 280), while the real extent of unemployment was even larger with regard to non-organised and discouraged workers and their families (see Petzina, 1986).

Various cost-saving strategies were applied between 1927 and 1933 in order to counteract the simultaneous problem of decreasing contributions and increasing benefit payments (for details see Adamy and Steffen, 1982; Homburg, 1987). Cutbacks were made against a backdrop of public allegations, by employer organisations in particular, that benefit abuses by workless people were on the increase. For seasonal and temporary workers, access to insurance benefits was restricted and young people under the age of 21 were excluded from the coverage of crisis assistance. In October 1929 the contribution requirement for qualifying for unemployment benefits was extended and health insurance contributions (paid on behalf of unemployed workers by the *Reich* Office in Nuremberg to health insurance funds) were cut by a third.¹ The trade unions and the Social Democratic Party (SPD) opposed further cuts and demanded the increase of contributions to the unemployment insurance fund as well as the introduction of a special levy on groups who were exempt from paying contributions such as self-employed people and tenured public officials (*Beamte*) (see Pankoke, 1991, pp. 146). This suggestion was rejected by centrist and conservative parties on the ground that it would put an additional cost burden on employers. However, according to Preller (1978), the core of the debate on ways to reduce *Reich* Office expenditure was the more fundamental conflict about the system for 'combatting unemployment' and about the perception of unemployment as a social risk. As in Great Britain, the question how to react to growing debts in unemployment insurance had serious political implications. Disagreements concerning this issue triggered off the break-up of the last parliamentary government of the Weimar Republic when the SPD left the Grand Coalition with the conservative DVP in March 1930 (for details see Weisbrod, 1987).

Thereafter presidential cabinets issued emergency decrees in reaction to growing budget deficits in the unemployment insurance fund in order to reduce public subsidies to the *Reich* Office to which the government was legally obliged. Measures consisted of severe cut-backs (see Homburg, 1987) and increases of contribution rates, ultimately reaching 6.5% of gross wages. Benefit 'waiting days' and disqualification periods for voluntary unemployment were

¹ As the subsequent analysis of more recent benefit changes will show, the strategy of reducing overall expenditure for unemployment insurance by transferring financial difficulties to other social insurance schemes was a method frequently applied in the 1980s (see Chapter 7 and 8).

extended, young people were excluded from insurance benefit receipt and eligibility to crisis assistance was generally reduced to 20 weeks. In 1931 a global reduction of benefit rates of 5% was introduced (see Adamy and Steffen, 1982) and within a year very little was left of insurance principles. Unemployment benefit became means-tested after the first 6 weeks of receipt and the level of all types of benefits was reduced. These measures contributed to a significant decline in unemployment insurance (which had covered 61% of all registered unemployment in 1927) to just 11% by the time Adolf Hitler seized power in 1933 (Adamy and Steffen, 1982, p. 285). At the same time the importance of crisis assistance grew, and even more so that of local public assistance, which by 1933 provided help to 40% of all registered unemployed.

Paradoxically, the decline in insurance expenditure in addition to increased contribution rates led to an improved financial situation in the *Reich* Office. At the height of mass unemployment in 1932/33 a considerable surplus had been accumulated in the unemployment insurance fund (Adamy and Steffen, 1982, p. 287) while local support to unemployed claimants as a proportion of total public assistance expenditure rose from 10% in 1927 to 70% by 1932/33. This development forced the government into subsidising municipalities who by 1932 paid three times more assistance to the unemployed than the *Reich* Office (Adamy and Steffen, *ibid.*, p. 288). These developments in the early 1930s were interesting with hindsight because of some similarities to developments in West Germany 50 years later (see Chapter 8 and 9). As in the early 1930s, the constellation of high unemployment and budget deficits - and later a surplus - in the unemployment insurance fund had similar implications for locally financed assistance and also led to similar political reactions in the 1980s. Without going into detail, it should be noted that this development strengthens a central hypothesis of this study (see Chapter 2), i.e. that policy decisions concerning unemployment compensation are to a large extent influenced by traditional welfare legacies.

However, another response to the increase in unemployment in the early 1930s was the extension of 'voluntary work programmes' which by 1932 had provided food and accommodation for about 800,000, mainly young, participants (see Klees, 1984, pp. 124). A reformed version of these quasi-workfare schemes became an important element of the fascist regime from 1933 onwards. Almost immediately after Hitler came to power the self-administration of the *Reich* Office was abolished and became subsumed into the *Reich* Ministry of Labour. Its accumulated funds were confiscated by the government and were

used to extend public work programmes for building motorways and other projects. Hitler had promised to overcome unemployment within four years and that appeared to be a success. Already by 1934 unemployment had declined to 2.7 million and by 1938 less than 500,000 people were out of work. However, apart from the extension of public work programmes which were later transformed into a compulsory 'work front' (see Klees, 1984, pp. 129), this development was assisted by statistical manipulations of the unemployment count (Pankoke, 1991, p. 168) and by the 'encouragement' of women to leave the workforce (ibid., p. 173). The introduction of compulsory military service and the extension of the war production industry reduced unemployment further.

Although the unemployment insurance system formally continued to exist during the 'Third *Reich*', the only remaining task for the *Reich* Office was the collection of contributions, which had become an extra tax since revenues were fully incorporated into government funds. There was no legal right to benefits any longer and payments had become means-tested. Earlier, labour exchanges had been put under the direct control of the regime and former employment services were replaced with compulsory work schemes. By 1938 local offices had the power to force citizens to work in specified employment for a fixed period of time (Adamy and Reidegeld, 1988, p. 41). After the attack on Poland and the start of the war, employment offices became even more important for allocating labour to the war-time industry. No employment contracts or redundancies were permitted without prior notification to local labour exchanges (for details see Klees, 1984; Niess, 1982).

5. Post-war developments in Germany

With the separation of Germany in 1945 into four sectors occupied by the allied forces, the *Reich* Office for Labour Exchange and Unemployment Insurance ceased to exist while regional and local employment offices were controlled by the allied forces. In what was to become West Germany, unemployment increased to 600,000 in 1947 and to a maximum of 1.58 million in 1950 before a slow but steady decline set in during the 1950s (Böhme, 1977). While the payment of unemployment benefits had been stopped immediately after the war, some support was still granted but the regulations differed in the four occupied zones.

Rather than reintroduce the fragmented pre-war schemes which had covered specific groups and classes of the population, the Allied Control Commission worked out a draft which intended to implement an extended and comprehensive

social insurance system in Germany. This aim was inspired by the Beveridge proposals discussed in Great Britain at the time (see below) but the British administration itself remained critical due to the potential cost of such a plan (see Hockerts, 1981). Coal from the Ruhr in the British zone was considered to be crucial for reviving economic activities and this, in turn, was 'a precondition for any hopes of cutting the expense of the occupation' (Baldwin, 1990, p. 196). Indeed the driving forces in favour of a comprehensive social insurance scheme, eliminating separate funds and financed exclusively by contributors, were the United States of America and the Soviet Union. According to Baldwin (1990) one of the major forces behind this proposal was that 'under the cloak of humanitarian and enlightened policy, it financed welfare without the state's help, freeing fiscal resources for other purposes and shifting the brunt of redistribution directly to the insured themselves' (Baldwin, *ibid.*, p. 195). German opposition to such a plan was widespread ranging from private insurance companies, occupational groups and the traditional insurance funds to sections within the trade union movement who feared that a universal scheme would involve low benefit rates. According to Hockerts (*ibid.*), the opposition to a collective form of social insurance in Germany has to be related to plans for a unified and centrally controlled social security system which had been devised (but not introduced) by the Nazis. The traditional fragmented German social insurance system was one of the few German institutions which was regarded with pride in post-war Germany. Thus, perceived as having been abused by the Nazi government, major societal groups and organisations in Germany intended to reintroduce traditional social insurance schemes. Also, while pursuing different objectives with regard to social security (see below), both major political parties in what was to become West Germany agreed that a social insurance scheme should be introduced by German authorities rather than imposed by the Occupying Forces.

The onset of the Cold War altered the situation with respect to the position of the United States for whom it became more important to come to an agreement with prevailing West German views rather than to reach an accord with the Soviet Union (see Hockerts, *ibid.*, p. 319). The task to introduce a new social security scheme was transferred to the new West German authorities. The major party in the newly formed government elected in 1949 was the conservative Christian Democratic Union (CDU) under Chancellor Konrad Adenauer. In accordance with the smaller coalition partners, the liberal Free Democrats (FDP) and the conservative German Party (DP), the CDU had 'nailed the defence of the

traditional social insurance system to its mast' (Hockerts, 1981, p. 320), favouring a return to traditional earmarked and earnings-related insurance contributions and benefits, a contributory finance system and a minimum income only in the form of means-tested public assistance.

After a second election victory in 1953, some sections within the CDU contemplated a move to a more comprehensive social insurance scheme (influenced by the steep increase in costs of the existing system). But internal party disputes and the economic boom in the 1950s prevented more serious legislative initiatives. Instead, a major reform of retirement pensions in 1957 (including a steep rise in pension levels and the link of annual upratings to developments of gross wages) fully reestablished traditional social insurance principles and also proved electorally very effective. The gain of an overall majority for the CDU in the general election in 1957 is widely believed to have been helped by the introduction of the pension reform (see Michalsky, 1985). The opposition Social Democratic Party (SPD) initially favoured a comprehensive and universal social insurance model in line with the Beveridge type (see Baldwin, 1990, pp. 186). However, after the convincing victory of the CDU in 1957, a process of programmatic reorientation began with the SPD (see Chapter 5), which led to the acceptance of the existing structure of social security. It took until 1966 before the SPD gained political power in a ruling coalition with the CDU for the first time after the war (see Chapter 5).

With regard to the reintroduction of unemployment compensation and employment services, both the CDU and the SPD favoured a return to old structures. Already during the occupation, plans had existed for a return to an unemployment insurance scheme based on the original 1927 Act, disregarding the subsequent decrees from the 1930s. A major disagreement appeared between the government on the one side and employers and unions on the other. Both organisations demanded that they should be able to control the administration of a new Federal Labour Office without interference from the political side (Adamy and Reidegeld, 1988, p. 86). The government argued in favour of the reinstatement of the traditional tripartite administration since a large part of the spending (unemployment assistance and other programmes, see Chapter 4) was financed by taxation (see Hockerts, 1980, p. 156). This position was unanimously supported by the *Länder* and a tripartite structure was eventually reintroduced involving representatives from employers, employees and public authorities. Organisational integration was achieved in 1952 when a Federal

Office for Labour Exchange and Unemployment Insurance was established in Nuremberg.

Yet it took until 1956 before a uniform benefit structure was agreed upon in West Germany. The new Act of Labour Exchange and Unemployment Insurance (AVAVG) was implemented which regulated both insurance benefits and labour market programmes, administered by the Federal Office, until in 1969 new legislation was brought in (see Chapter 5). Benefit arrangements remained divided into three different financial and conceptual frameworks. Unemployment insurance benefits (*Arbeitslosengeld*) were officially termed 'wage replacement' benefits, paid as of right based on a sufficient number of contributions which were financed in equal parts by employers and employees. Rates differed according to wage brackets with an average of 55% of former net earnings. The maximum duration of benefit entitlement was one year. Those who had exhausted their right to *Arbeitslosengeld* could claim unemployment assistance (*Arbeitslosenhilfe*). Conceptually, this benefit resembled the former 'crisis assistance' by being situated between insurance benefits and public assistance. Officially it too was termed a 'wage replacement' benefit since it was also administered by the Federal Office and its level was also related to individual former net wages. However, transfers were financed by general taxation and payments were only made if claimants were in need. If the level of *Arbeitslosenhilfe* was insufficient (i.e. below public assistance scale rates), additional assistance could be claimed which remained means-tested and administered and financed on a local level. As will be shown during the course of this study, although these benefit arrangements have been reformed several times since the mid 1960s, the basic structure remains in place today (see Chapter 4).

6. Plans and legislation after 1940 in Great Britain

In contrast to Germany (and later West Germany) unemployment benefits in Great Britain became administratively and financially linked with other types of social security benefits after 1940. The Unemployment Assistance Board was renamed the Assistance Board in 1940 which became responsible also for other supplementary benefits (e.g. old-age pensions). In June 1941 the government appointed William Beveridge to act as chairman of an inquiry into Social Insurance and Allied Services. The proposals put forward by the Committee in 1942 (which became known as the Beveridge Report, see Cmd 6404) envisaged a uniform national insurance system pooling 'good' and 'bad' risk groups in the same National Insurance Fund.

Based on plans devised in the 1920s, Beveridge believed that a comprehensive and compulsory insurance system offering benefits in return for contributions was favoured by a majority of the British population especially if set against the much despised household means-test system operating in the 1930s. Unemployment insurance should be integrated in a comprehensive social insurance scheme covering also loss of income due to old-age, sickness and widowhood. The scheme should be compulsory and cover the whole working population. Flat-rate contributions were to be financed by employers and employees and, in order to keep contribution rates low (see Brown, 1991, p. 24), a subsidy by the state. A financial state involvement would also, Beveridge believed, function as an incentive for the government to pursue full employment policies which was essential for reducing the overall cost of the system. Proposals also envisaged setting up a National Health Service and family allowances to be paid on top of insurance benefits. It was emphasised that the success of such a comprehensive system was dependent on a political commitment to full employment.

Formulated against the background of World War II and in the light of particular social and economic problems, the Beveridge Report proved highly popular at the time and was also generally accepted by both major parties. In many respects, the proposals implied a major step forward towards a national and comprehensive system of social insurance. However, at the same time it was also, especially as far as unemployment insurance is concerned, merely a modified continuation of pre-war benefit arrangements. Evidence was submitted to the Committee by various groups such as employers' and employees' organisations (see Brown, 1990, p. 21) which represented, according to Morris (with Llewellyn, 1991), a 're-run of the by now familiar and unresolved deliberations concerning the nature and extent of cover appropriately offered by an unemployment insurance scheme' (*ibid.*, p. 18).

Benefit levels were devised as universal flat-rate transfers set at a subsistence level (with lower rates for younger claimants and married women) in order to leave room for additional savings or voluntary provision or a supplementary means-tested benefit. Assistance benefits, however, were seen by Beveridge only as an exceptional solution for times of financial crisis. The main form of state benefits were insurance transfers to be paid as long as claimants were out of work, thus, for jobless people, as long as unemployment lasted (see Cmd 6404, p. 11). Problems concerning benefit abuse as a result of people getting used to living on benefit (see *ibid.*, p. 57) were believed to be preempted by requiring

unemployed workers to attend work or training centres after, on average, six months of unemployment.¹

The newly elected Labour government accepted and implemented the main structures of the popular Beveridge Report which was acknowledged in the National Insurance Bill. Yet, some features were criticised and not implemented. With regard to unemployment insurance, two main deviations concerned the proposals with regard to the duration of benefit entitlement and also the level of benefits. An indefinite duration of benefit entitlement was rejected for reasons of cost and benefit abuse. While training for unemployed workers was regarded as a positive measure for reducing unemployment, compulsory training was rejected by the government because it was not believed to be an adequate sanction for benefit abuse. The left wing in the Parliamentary Labour Party proposed the extension of benefit payments after claimants had reappeared before local tribunals (Heß, 1981, p. 148) but the Cabinet feared the potential financial burden of an unlimited benefit entitlement. Unemployment rates were about 8% at the time (Deacon, 1981) which was the basis of the government's estimates of the future cost of the scheme. With hindsight, the actual unemployment rates turned out to be much lower until the 1960s (see Chapter 5). However, financial considerations at the time, shared by the Conservative Party, were highly influential upon the regulation which fixed a maximum benefit duration of 30 weeks after which insurance coverage would be exhausted (with the possibility of applying for discretionary benefits for 'additional days').

Secondly, benefit rates at the subsistence level were thought to be too high (see Morris with Llewellyn, 1991, p. 20) not least with regard to the overall costs of the scheme. Already in 1943 the government had disliked the idea of providing subsistence rates (Brown, 1990, p. 29). Contributions were perceived by James Griffiths, the Minister for National Insurance, to be on a 'very high level' (quoted in Heß, 1981, p. 302) which would rule out higher benefits. Furthermore, it was argued that social insurance should provide equal benefits for equal contributions. It would not be practicable to take account of variations according to individual needs and circumstances in an insurance system. Thus, benefit levels were envisaged as being below the subsistence rates as recommended by Beveridge. Insurance benefit levels were conceded by the government as a 'very modest standard of life' (quoted in Heß, 1981, p. 306) but the gap between levels of need and benefit levels was to be bridged by

¹ For a more detailed discussion of the Beveridge proposals concerning unemployed social security claimants see Fulbrook, 1978 and Brown, 1991.

means-tested benefits. Thus, when the National Insurance Act 1946 was finally implemented, insurance benefit rates were set below the subsistence level so that for unemployed claimants out of work for longer than only brief periods of time, additional support was required to meet the cost for family needs and rent payments. This could be claimed through National Assistance which in 1948 finally abolished the Poor Law regulations by standardising means-tested benefits administered by a central National Assistance Board.

Thus, Beveridge's idea of granting means-tested benefits only during exceptional times (and mainly to the elderly) was frustrated from the beginning. Despite the ideological emphasis put on insurance as a main form of social security assistance, by 1948 the majority of National Assistance recipients already required support in order to supplement inadequate insurance benefits (see Walker, 1983). Thus, despite the by then comprehensive and centrally managed system of unemployment compensation, the separation of assistance and insurance benefits did not only continue after World War II, but unemployment insurance, now an integral part of social insurance, had not been adequately reformed to function as a primary or independent form of income provision for most of the unemployed.

7. Conclusion

This brief historical description of unemployment compensation schemes has shown similarities but also significant differences in the setting up and amending of national benefit arrangements in the two countries. Both British liberalism and already existing German state social insurance schemes have proved to be powerful factors which influenced groups (mainly state officials, unions and employer representatives) directly or indirectly involved in the introduction of national systems. This was especially apparent with regard to the specification of unemployment insurance characteristics. Once basic structures were in place, they functioned as the context for debates over amendments and also proved to be fairly resilient to change. For example, despite a number of reforms, the split arrangements of income support in insurance and assistance benefits has remained intact in both countries. Also, particular national characteristics such as benefit types and principles, links to other social security benefits or programmes and other features are still in place today (see Chapter 4). This supports the notion of institutional variables (Hall, 1986) or national 'welfare state legacies' (Skocpol, 1985b; Esping-Andersen, 1990) acting as guiding influences on policy changes. As outlined earlier (see Chapter 2), the validity of this argument

will be tested in more detail in the analysis of benefit changes between the mid 1960s and the end of the 1980s in the two countries under investigation (see Chapters 5 to 8).

A particular political constellation before the first World War in Great Britain but also comparatively more severe problems of high unemployment favoured a situation which allowed an administrative elite within the Board of Trade to set up a national unemployment insurance scheme on an experimental basis. Its features (flat-rate contributions and benefits) reflected the dominant influence of British liberalism (leaving room for non-state provision) but also political tactics with the aim of gaining acceptance for the scheme (leaving union-run systems in place). By contrast, lower unemployment rates in Germany and the position of both unions and employer organisations against state involvement in unemployment compensation (albeit for different reasons) preempted any moves towards setting up a national scheme before World War I.

A high number of jobless people in the aftermath of the war and fluctuating but high unemployment levels throughout the 1920s changed the situation in two respects. Firstly, successive governments in both countries perceived unemployment as a considerable threat to social stability and to political legitimacy. This preempted the possibility of simply referring jobless workers to existing local Poor Law support. Secondly, recurrent high unemployment levels seriously challenged the economic doctrine of self-regulating labour markets. Both factors encouraged the introduction and continuation of benefits for workless people outside of insurance coverage in Great Britain (e.g. 'uncovenanted' benefits) and of primary unemployment support in Germany ('crisis assistance').

An important influence for the eventual implementation of unemployment insurance in Germany was the financial reform of the existing support scheme which introduced compulsory earnings-related contributions by employees and employers in 1923. This funding principle had already been in operation in other state social insurance systems and unions argued that benefits should, as other insurance benefits, function as 'wage replacement transfers', i.e. a level of unemployment benefits reflecting previous earnings which could allow unemployed workers to maintain accustomed living standards to some degree. Furthermore, the funding reform in 1923 also approached the position of employer organisations and unions in particular respects. Both organisations agreed that an insurance system should be set up outside of the state apparatus and should be controlled and administered by contributors to the scheme. Again,

this principle of co-determination had already been in place in old age pension systems but also in the administration of employment exchanges. This, rare, agreement between unions and employer organisations at the time and the relatively low unemployment level in 1927 (reducing the cost of the scheme) were important factors for the introduction of a compulsory national unemployment insurance scheme in Germany. The well established network of employment exchanges was used to administer benefit payments which were regarded as merely one instrument to combat the effects of unemployment.

Before the world economic crisis in 1931 the financial volatility of unemployment insurance systems had already become apparent. Exceptionally high jobless figures and growing long-term unemployment led to a return to orthodox economic policy measures involving a series of cutbacks in benefit arrangements in both countries. These retrenchments contributed to a growing number of jobless people having to resort to public assistance. The problem of financing unemployment insurance schemes at a time of a world recession and mass unemployment in the early 1930s had serious political implications in both countries. As outlined, the Labour government was split over the question whether benefit rates should be reduced and the inability to come to an agreement turned out to be a major factor for its resignation. In Germany, the coalition between the SPD and conservative parties broke up also over disagreements concerning unemployment insurance and presidential Cabinets took over. Major cuts in benefit levels and entitlement rights were introduced in both countries. Despite the introduction of administrative changes thereafter, frequent protests by unemployed workers in Great Britain continued in the 1930s and only abated in the second half of the decade when unemployment started to decline. In Germany a fascist regime took direct control of an already diminished unemployment insurance system and later misused its administrative apparatus in order to allocate labour for war preparations.

After World War II, reforms of unemployment insurance in both countries were guided by previously implemented benefit structures. In the context of the Beveridge Report, a standard and uniform national two-tier benefit system involving insurance and assistance transfers was introduced. However, similar to the introduction of the scheme in 1911, a combination of liberal thinking and political expediency led to low insurance benefit rates which, in contradiction with the Beveridge plan, never succeeded in reducing the role of assistance benefits to exceptional payments. Ever since the 1940s, unemployment insurance in Great Britain has remained a part of a general national insurance system,

financed by national insurance contributions and administered by a government department. Insurance benefits have not become a sufficient independent source of income security for many unemployed but had to be topped up with, also centrally administered, assistance benefits. In fact, as the analysis will show, assistance benefits have become by far the most common form of income support for a majority of unemployed claimants in the 1980s.

In West Germany, despite plans by the Allied Forces, the fragmented three-tier benefit arrangement of 1927 was reintroduced in the 1950s. The hybrid character of a reformed 'crisis assistance' remained in place as a secondary 'wage replacement' benefit and also the locally financed and administered public assistance as a last resort for all people in need. Unemployment insurance contributions remained earmarked and paid into a separate fund outside of government administered by tripartite boards involving unions and employer organisations. Benefits remained closely linked to former gross earnings and the division between national unemployment insurance and locally administered and financed means-tested assistance became even more pronounced after the war. As the analysis will show, these, and other, institutional structures of unemployment compensation schemes have played a significant role in shaping policy outcomes since the mid 1960s in both countries. However, in the next chapter, I will first provide, in more detail, a description of major structural differences which characterise current unemployment compensation arrangements in Great Britain and West Germany.

Chapter 4

Social security and unemployment in Great Britain and West Germany

It is obvious that before a comparative analysis can be conducted, the exact characteristics of what is to be compared have to be understood. The main purpose of this chapter is therefore to provide the reader with an idea of what this study sets out to analyse in a comparative context. Firstly, the main features of national benefit arrangements for unemployed people in both countries are illustrated. The aim is to describe broad similarities and differences in the framework, type and structure of social security benefits available for unemployed claimants. The function of these systems against the background of rising unemployment during the past two and a half decades will also be briefly illustrated. Secondly, in order to put the study in a broader context, I will provide a broad description of economic and labour market developments and of the changed social composition of unemployment in the two countries since the 1960s.

Social security arrangements for unemployed people in Great Britain and West Germany¹

Great Britain

In Great Britain, the main sources of state support for jobless people are unemployment insurance benefit and means-tested Income Support transfers (prior to 1988 Supplementary Benefit). The Department of Social Security (DSS) is responsible for legislative changes and financial arrangements of both

¹ Many benefit regulations will be discussed during the course of the subsequent analysis. The purpose of this section is merely to illustrate some general features of benefit arrangements and institutions in the two countries. A more comprehensive account of national characteristics for Great Britain can be found in Ogus and Barendt, 1988; Rowland, 1991 and CPAG, 1991. The West German system is described in Bruche and Reissert, 1985. For a cross national comparative discussion of administrative arrangements (involving the two countries under investigation) see Pennings, 1990 and , with a focus on funding frameworks, Schmid et al., 1987.

unemployment insurance and assistance transfers (both of which are administered by the Department of Employment on behalf of the DSS). Unemployment insurance benefits are granted to claimants for a maximum duration of one year. They are financed by contributions to the National Insurance Fund which is also the source of other insurance benefits (e.g. old age pensions or sickness benefits and, partly, also of the National Health Service). From its introduction, the National Insurance Fund was financed on a tripartite basis (by employees, employers and the state). However, the subsidy from general taxation was steadily reduced during the 1980s and finally abolished in 1989 (see Chapter 8).

National insurance contributions from employees represent 2% of earnings below the lower earnings level (£52 per week in 1991) and 9% of earnings between the lower and the upper earnings limit (£390). Employer contributions (class 1) are also proportional to employees' wages (if above the lower earnings limit) but include different bands between 4.6% and 10.4% of earnings (for details, see Rowland, 1991). In 1988 the two contribution conditions for qualifying for unemployment benefit were tightened (see Chapter 8). Currently, eligibility requires firstly a certain value of contributions (25 times the lower earnings limit) which have to have been paid in one of the last two complete tax years. Secondly, claimants have to have either paid or been credited with contributions producing an earnings factor equal to 50 times the lower earnings limit in each of the two contribution years before becoming unemployed.

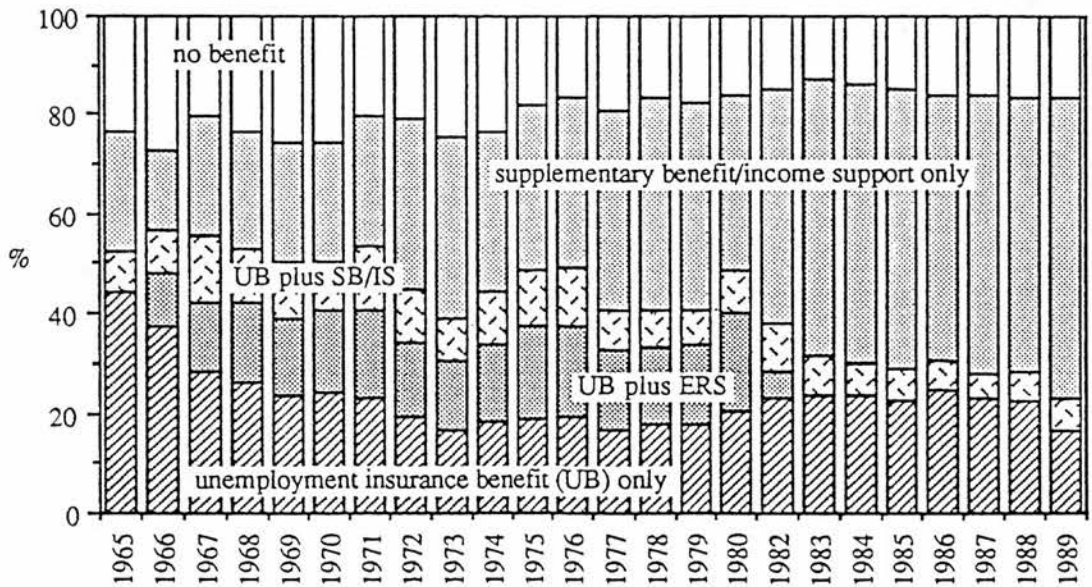
The weekly amount of insurance benefits for a single person in 1989 was £34.70 (which represented 18.1% of average net earnings, see DSS, 1991, p.282) with an addition of £21.40 for a dependent adult (28.2% of average net earnings, *ibid.*).¹ There are higher rates for claimants over pensionable age and means-tested housing benefits for those in need can 'top up' insurance benefits. Also, unemployed claimants can receive means-tested Income Support as an additional or as the only form of income support. This benefit is financed out of general taxation and the personal amount is only marginally below unemployment benefit. In fact, for claimants with dependent children, Income Support rates are actually higher than a combination of insurance benefits and child benefits. For single people below the age of 25 personal Income Support allowances are lower and claimants under the age of 18 are normally not entitled

¹ The basis for these calculations by the DSS is the New Earnings Survey. The 'replacement rate' of unemployment benefits rises in line with the size of a family. A couple with four dependent children, for example, received unemployment benefits representing 35.8% of average net earnings in 1989 (see DSS, 1991, p. 297).

to the benefit because they are, if not in education or employment, supposed to be participating in a Youth Training Scheme (see Chapter 8).

The difference in principle, of course, is that insurance benefits are paid as of right on the basis of sufficient contributions while Income Support is a means-tested benefit. As outlined, both benefits are flat-rate transfers and have been important as income assistance for unemployed people in Great Britain - but unemployment insurance benefit has had a comparatively low profile. As figure 4.1 shows, at any one time since the mid 1960s less than 60% of the registered unemployed have received insurance transfers with or without additional means-tested benefits and less than 50% were in receipt of unemployment benefit either as the single form of assistance or with additional receipt of an earnings-related supplement (ERS) which was in operation between 1966 and 1982 (see Chapter 5). During the 1980s especially, assistance benefits for the unemployed have become increasingly important with the simultaneous decline of insurance benefits (see Chapter 8).

figure 4.1: share of registered unemployed by type of benefit, Great Britain 1965 to 1989, (November figures)



source: *DSS Social Security Statistics*; various years, (no data available for 1981)

West Germany

In West Germany, and now also in a unified Germany, unemployment insurance benefits are officially perceived as one aspect of labour market

policies, all of which are regulated in the Labour Promotion Act (*Arbeitsförderungsgesetz*, AFG) which was introduced in 1969 (see Chapter 5). It is administered by a single body, the Federal Labour Institute (*Bundesanstalt für Arbeit* or *Bundesanstalt*) in Nuremberg. Independent of the Federal administration in Bonn, policies of the *Bundesanstalt* and also of regional and local employment offices throughout the country are determined by tripartite boards with representatives from unions, employer organisations and public authorities. However, relevant policy changes and financial decisions are determined by the Ministry of Labour and Social Affairs, which also authorises the annual budget.

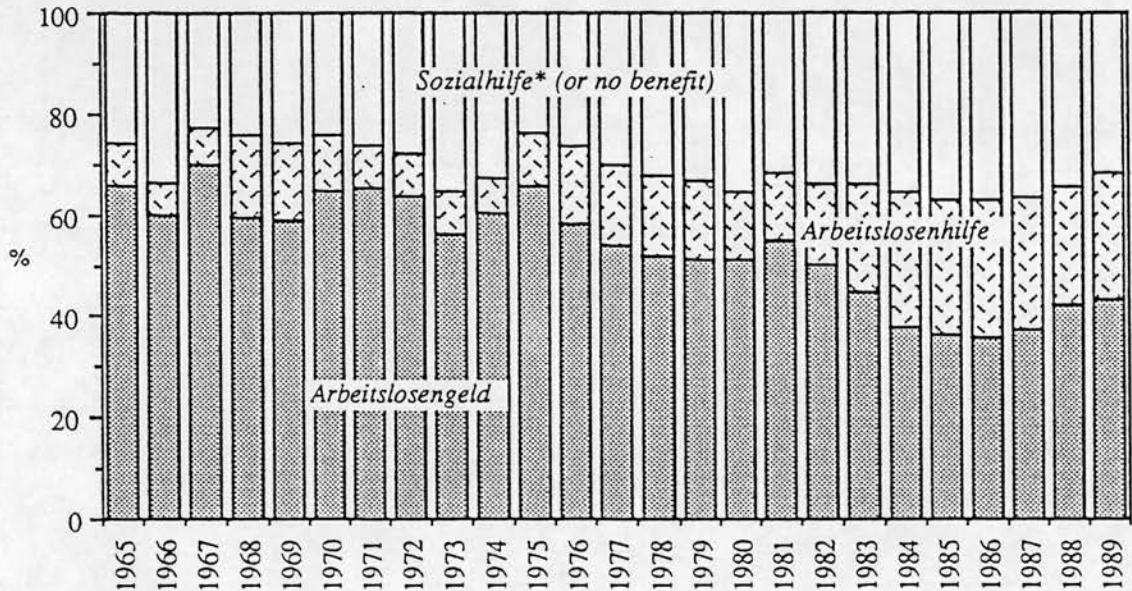
Labour market programmes (e.g. vocational training, retraining and further training, job creation schemes, rehabilitation etc.) as well as services provided by employment offices (e.g. vocational counselling) and benefits (e.g. unemployment benefits or short-time working allowances granted to workers during periods of unavoidable and temporary reductions of working hours) are financed by earmarked contributions (4.3% in 1990) to the *Bundesanstalt*. Calculated on the basis of monthly gross wages, contributions are paid in equal parts by insured employees and their employers. This compulsory insurance system includes all dependent workers who are employed for more than 18 hours per week with the exception of tenured public sector employees (*Beamte*) and self employed people.

The *Bundesanstalt* administers the two main benefits available for unemployed people. Provided contributions have been paid for a sufficient period of insured employment (at least one year), unemployed workers can receive *Arbeitslosengeld* (unemployment benefit), which represents 68% (63% for claimants without children) of the claimant's previous net income for a maximum standard duration of one year (there are exceptions for older workers with longer contribution records, see Appendix B, table 1). The rate is based on an average monthly net income within the previous three months before becoming unemployed, excluding extra payments such as holiday or Christmas bonus or remuneration for overtime work.

Instead of *Arbeitslosengeld*, claimants might receive *Arbeitslosenhilfe* (unemployment assistance). This benefit can be characterised as a 'hybrid', involving elements of insurance provision but also of a means-tested system. Access to *Arbeitslosenhilfe* is granted to claimants who have either exhausted their entitlement to *Arbeitslosengeld* (so called 'connected' *Arbeitslosenhilfe*) or for unemployed who have been in insured employment for at least 6 months

prior to becoming unemployed ('original' *Arbeitslosenhilfe*). The level is also based on former net income (58% for claimants with children, 56% for others) but the payment is subject to a means-test and is paid, in principle, for an unlimited period of time. Also, while *Arbeitslosenhilfe* is administered by the *Bundesanstalt*, it is paid out of the Federal budget (general taxation).¹

figure 4.2: registered unemployed by type of benefit, West Germany 1965-1989 (annual averages)



source: *Ämtliche Nachrichten der Bundesanstalt für Arbeit (ANBA), Jahreszahlen*; various years;

*Note that *Sozialhilfe* claimants can also be in receipt of *Arbeitslosengeld* or *Arbeitslosenhilfe* (see Appendix B, table 3)

While both 'active' labour market programmes² and unemployment insurance provision are principally financed by monthly contributions, the Federal government is legally obliged to subsidise the *Bundesanstalt* in order to balance its annual account but only if deficits occur. Appendix B (table 2) provides an overview of the development of receipts and expenditure of the *Bundesanstalt* between 1970 and 1989. During the 1980s, an increasing exclusion of unemployed people from receipt of *Arbeitslosengeld* occurred and *Arbeitslosenhilfe* gained importance as a form of income security (figure 4.2). Also, the number and proportion of registered unemployed in receipt of

¹ Between 1966 and 1981 the 'connected' *Arbeitslosenhilfe* was paid out of the *Bundesanstalt's* budget.

² For an overview of unemployment benefit and labour market programmes (in English) see Pennings, 1990. For an evaluation of the development of German labour market policies in the 1970s and early 1980s see Webber, 1982 and 1984 (in English); for the 1980s, see Schäfer, 1988.

Sozialhilfe, as the only or an additional form of income, increased (see Appendix B, table 3).

A third form of benefits available not only for unemployed people is called *Sozialhilfe* (social assistance). This system operates in a similar way to the British Income Support scheme but is financed and administered on a local level by municipalities and local authorities (see Appendix B, table 1). *Sozialhilfe* is open to all citizens (in or out of work) who lack sufficient resources in order to 'lead a life of human dignity'. There are two basic forms of *Sozialhilfe*. Firstly, 'assistance in particular circumstances' for specific groups in need (e.g. the handicapped, the blind, homeless people, pregnant women, see Brühl, 1989, p. 8). The second form is called 'assistance with the cost of living' (HLU) which is supposed to provide income for necessary resources on a subsistence level.¹ *Sozialhilfe* is paid as a last resort with all other forms of income from work (including other state benefits) or savings, and the obligation by partners, parents and children to pay income maintenance taken into account (subsidiarity principle). The flat-rate level is based on the value of a 'basket of goods' which includes items defined by experts as necessities for subsistence. Usually benefit levels are uprated in line with the rise in prices but there were some deviations in the early 1980s (see Chapter 7). The total level of *Sozialhilfe* consists of the standard rate for claimants in a particular *Land* (there are some minor differences) plus additions for dependants (for children according to age) and for rent and heating, as well as extra payments. Certain claimants receive higher standard rates (e.g. older people, single parents, people in employment). Appendix B (table 3) shows that, in 1989, 2.77 million individuals were in receipt of *Sozialhilfe* (*Hilfe zum Lebensunterhalt*) at least once during the year. For a third of all recipients the main reason for claiming *Sozialhilfe* (HLU) was 'loss of employment'.²

Unemployment in Great Britain³ and West Germany

Some of the changes in the labour markets since the 1960s have already been indicated. However, a brief but more explicit description of economic developments and of the level and composition of unemployment in Great Britain

¹ In the following I will, for convenience, refer to this type (HLU) simply as *Sozialhilfe*.

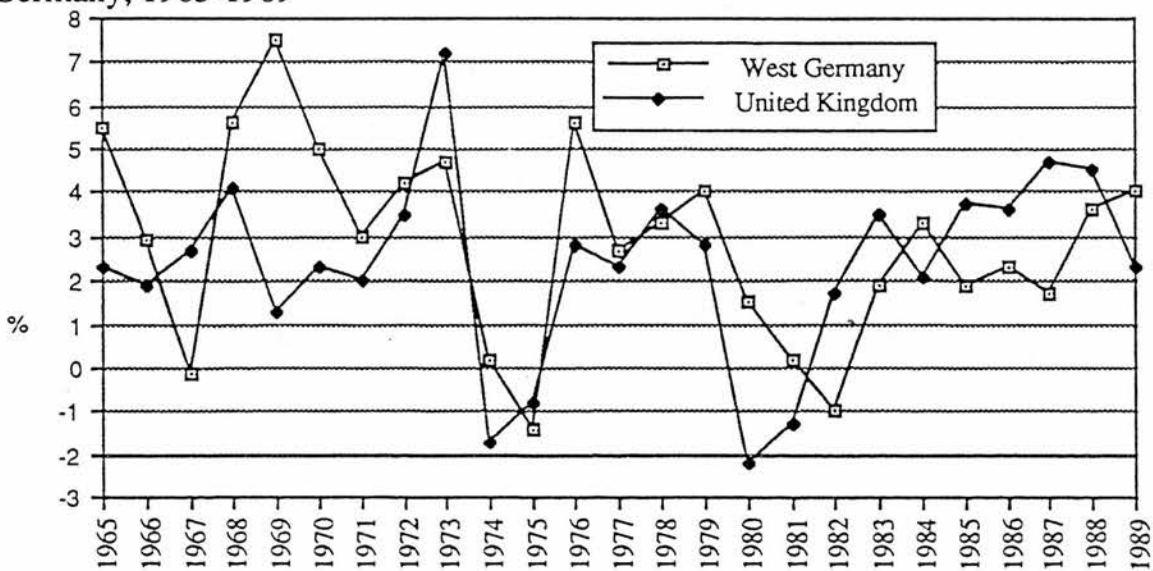
² Appendix B, table 1, provides a rough overview of the three different forms of income support available for unemployed people in Germany.

³ Some of the following data refer to the United Kingdom rather than to Great Britain.

and West Germany seems appropriate in order to provide a wider background for the subsequent analysis. Also, labour market changes have potential political and financial repercussions. For example, pressure for a political response to the problem of unemployment can increase as a result of rising youth unemployment or long-term unemployment. Amendments of social security regulations can be but one answer to these demands. As the previous chapter with regard to the interwar period has shown, the difficulty of funding unemployment compensation schemes during periods of economic crises can induce reforms in benefit arrangements.

As figure 4.3 demonstrates, the first major economic recession in West Germany after World War II (see chapter 5) was quickly overcome. After 1967, German economic growth rates climbed above those in the United Kingdom until both countries were affected by international economic crises in the mid 1970s and early 1980s to a similar extent. Economic recovery in the second half of the 1980s up to 1988 involved higher annual growth rates in the United Kingdom.

figure 4.3: average annual economic growth rates, United Kingdom and West Germany, 1965-1989

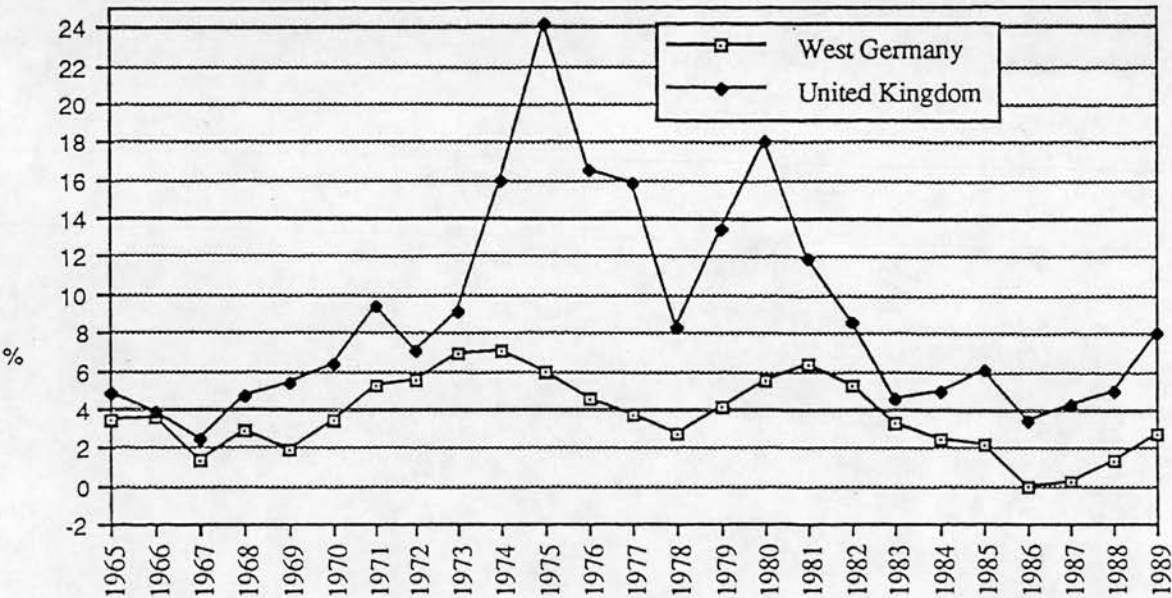


source: OECD, *Economic outlook*, various years (1965 to 1969 GDP, thereafter GNP rates)

Throughout the whole period under investigation, annual average inflation rates were at a higher level in the United Kingdom with peak rates of 24% in the mid 1970s compared with a, for West German standards, exceptionally high rate of 7% in 1974. This difference should not be misjudged however. As will be discussed in Chapter 6, Keynesian oriented economic policies were gradually

abandoned by governments in both countries after 1975 and replaced by austerity policies with the overriding objective of keeping inflation under control. Also, as will be discussed in more detail later, conservative administrations in Great Britain from 1979 and in West Germany from 1982 did not simply continue but actually reinforced the emphasis of cutting public expenditure - although with differing ideological fervour (see Chapter 7).

figure 4.4: annual average inflation rates in the United Kingdom and West Germany, 1965-1989

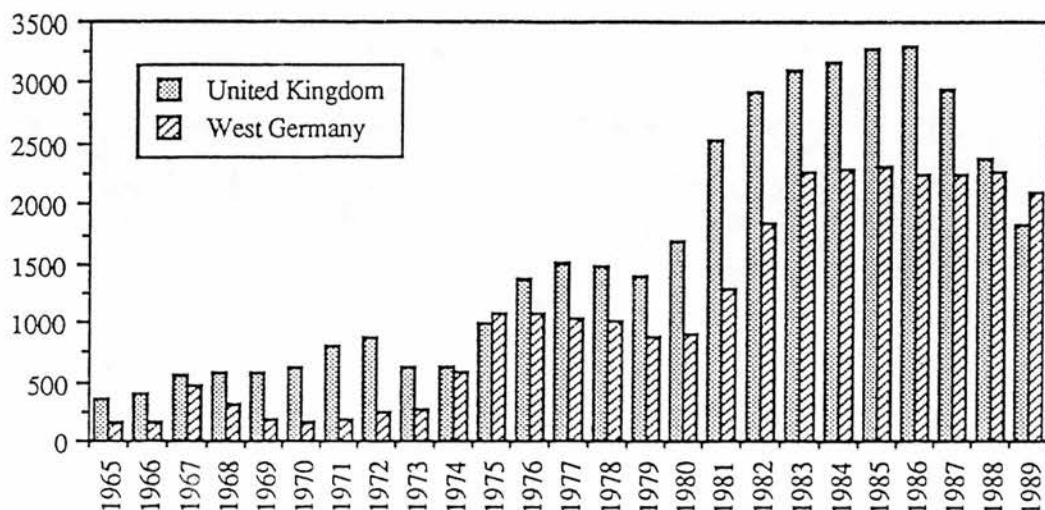


source: OECD, Economic Outlook, various years; OECD, Historical Statistics, 1991 (consumer price indices)

Consequently, from the mid 1970s, achieving full employment as a policy objective became subordinated to keeping inflation rates at a low level. As a result of international economic changes, but also influenced by nationally pursued policies, unemployment rose steeply in both countries after the economic crises in the mid 1970s and early 1980s. Applying national statistics (see figures 4.5 and 4.6), annual registered unemployment levels and rates throughout the period under investigation have followed similar paths with total unemployment in the United Kingdom surpassing unemployment levels in West Germany. However, in the second half of the 1980s trends diverged. At the end of 1986 joblessness appeared to have started to decline in the United Kingdom while West German annual unemployment levels remained roughly the same so

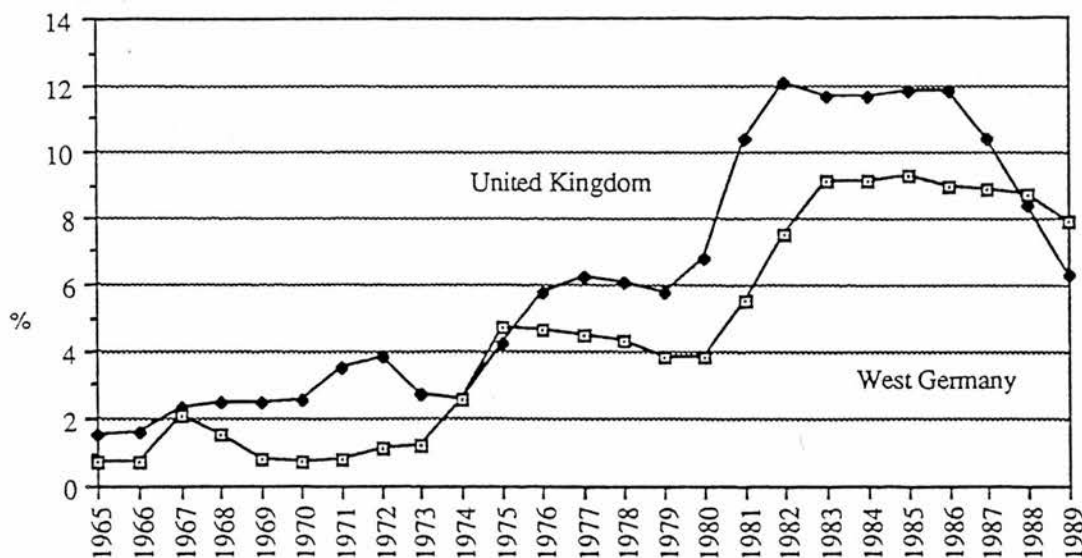
that in 1988 and 1989, the final year under investigation, official unemployment rates in the United Kingdom were actually lower than in West Germany.

figure 4.5: registered annual average unemployment levels; United Kingdom and West Germany, 1965-1989 (national definitions)



source: *Employment Gazette*, various years; *ANBA, Jahreszahlen*, various years

figure 4.6: official unemployment rates, United Kingdom and West Germany, 1965-1989 (national definitions)

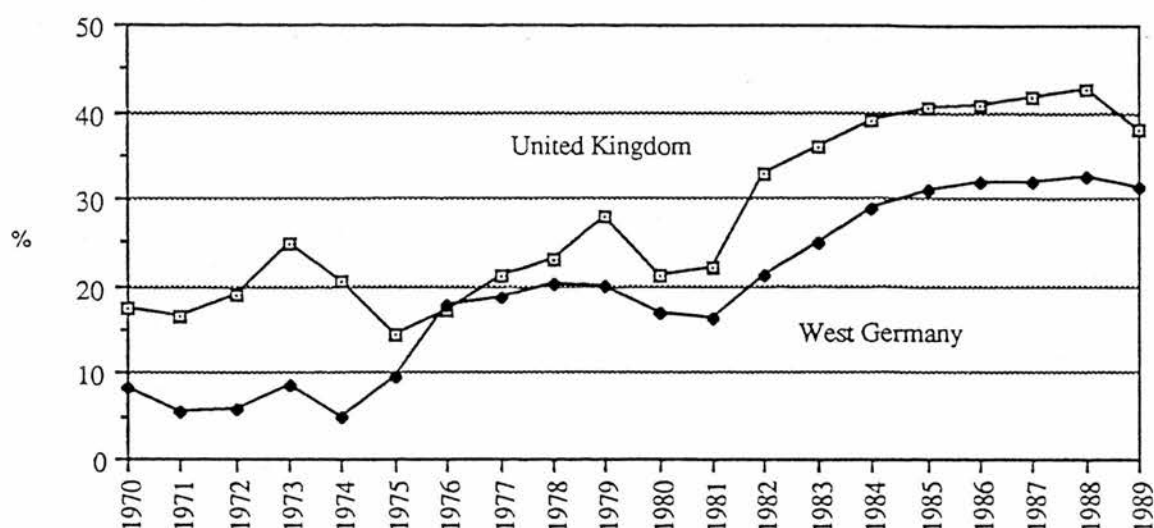


source: *Employment Gazette*, various years; *Beiträge aus der Arbeitsmarkt- und Berufsforschung*, 100, 1988 and Bundesanstalt für Arbeit, 1990

The general increase in unemployment figures since the 1960s can suggest either a higher number of people actually becoming jobless or more people

remaining in the unemployment stock longer (or a combination of both). Statistical data indicate that the rise in total unemployment during the economic crisis in the mid 1970s was mainly due to the increase in short-term unemployment in both countries. This changed in the 1980s, as figure 4.7 shows, with a steep increase of long-term unemployment expressed as a proportion of total unemployment. It can be argued that these figures underestimate the real extent of long-term unemployment especially amongst older workers. Both governments have introduced early retirement schemes (see below) as an option for older employed and unemployed workers to leave employment or the unemployment register. Also, higher levels of social security benefits were granted to particular groups of older jobless people in both countries on condition that they would cease to register as seeking work, which implies not being counted as officially unemployed any longer.

figure 4.7: long-term unemployment*, United Kingdom and West Germany, (national definitions)



*proportion of all registered claimants who have been unemployed for more than one year

source: Rose et al., 1988, p.40; *Employment Gazette*, various years, (1988 and 1989: July figures); *Bundesanstalt für Arbeit*, 1990

Official figures suggest that in the United Kingdom, the annual average of people unemployed for more than one year (long-term unemployed) remained below 400,000 during the 1970s but climbed to 1.3 million by the mid 1980s. In West Germany the percentage as well as the total number of long-term unemployed also rose considerably. In 1970, the average duration of a spell of

unemployment was six weeks. By 1986 it had increased to 32 weeks (see Rose et al., 1988, p. 43). With regard to the focus of this study, this development is particularly significant since the maximum duration of entitlement to unemployment insurance benefit in both countries is one year (with exceptions in West Germany, see above). As will be discussed in Chapter 8, the increase of long-term unemployment was a contributing factor towards extending the entitlement to insurance benefits for particular groups of unemployed claimants in West Germany in the second half of the 1980s.

Some comments should be made regarding the comparability of unemployment statistics in Great Britain and West Germany. Firstly, the official definition of unemployment differs between the two countries. In West Germany, the Federal Labour Office counts as unemployed those persons who are under the age of 65, registered at local employment offices, looking for a job and capable and available for work of at least 20 hours per week. Some statistical manipulations were made in the 1980s with the result of a reduction in the number of people officially registered as unemployed (see above and, in more detail, Chapter 8). Yet by comparison, in Great Britain the definition of unemployment has been changed numerous times since 1979 (see Morris with Llewellyn, 1991, pp. 58/59) which has reduced the number of officially counted jobless people significantly (see also Atkinson and Micklewright, 1989). The most important alteration was introduced in October 1982. Prior to that date the unemployment count was similar to the German definition. Since then however, only people claiming benefits (unemployment benefit, Income Support, or national insurance credits) at Unemployment Benefit Offices are counted as unemployed, provided they can prove that they are 'actively seeking' employment and are able to do suitable work (for more details concerning administrative conventions, see Pennings, 1990). Because of these differences, registered unemployment levels and rates are not strictly comparable over time and between countries.

Furthermore, people who would like to work if jobs were available ('discouraged workers' or the 'silent reserve') but do not register, for whatever reason, as being unemployed are excluded from the unemployment count in both countries. Finally, as studies in both countries have demonstrated, the effect of unemployment is not fully appreciated by measuring the number of jobless people on a particular day in the month (the unemployment stock). Analyses of the unemployed flow (people entering and leaving the unemployment register) show that unemployment is experienced by a larger number of people than the

officially registered level of the unemployment stock suggests. They also show that unemployment (and different lengths of spells of unemployment) affect particular groups disproportionately (for a recent discussion concerning Great Britain, see Daniel, 1990; for West Germany, see Karr and John, 1989; see also *Employment Gazette*, May 1991).

In an attempt to overcome problems of cross national comparability, some organisations compile unemployment rates for selected industrial nations based on national surveys (thus including jobless but unregistered job seekers). The Bureau of Labour Statistics, for example, uses national data which are adjusted to U.S. definitions. The OECD publishes standardised unemployment rates for its member countries according to concepts and guidelines issued by the ILO (see Moy, 1988) and Eurostat compiles internationally comparable figures based on survey data by using common concepts and definitions for countries in the EC.¹ Table 4.1. compares standardised unemployment rates in Great Britain and West Germany with nationally compiled rates.

table 4.1.: unemployment rates in Great Britain and West Germany according to national definitions and to standardised Eurostat data

	United Kingdom		West Germany	
	national rate	Eurostat	national rate	Eurostat
1984	11.7	11.4	9.1	7.2
1985	11.8	11.5	9.3	7.2
1986	11.8	11.5	9.0	6.6
1987	10.6	10.4	8.9	6.6
1988	8.4	8.5	8.7	6.1
1989	6.3	7.0	7.9	5.5

source: as figures 4.6 and Eurostat, *Eurostatistics*, 8/9, 1988 and 3, 1991

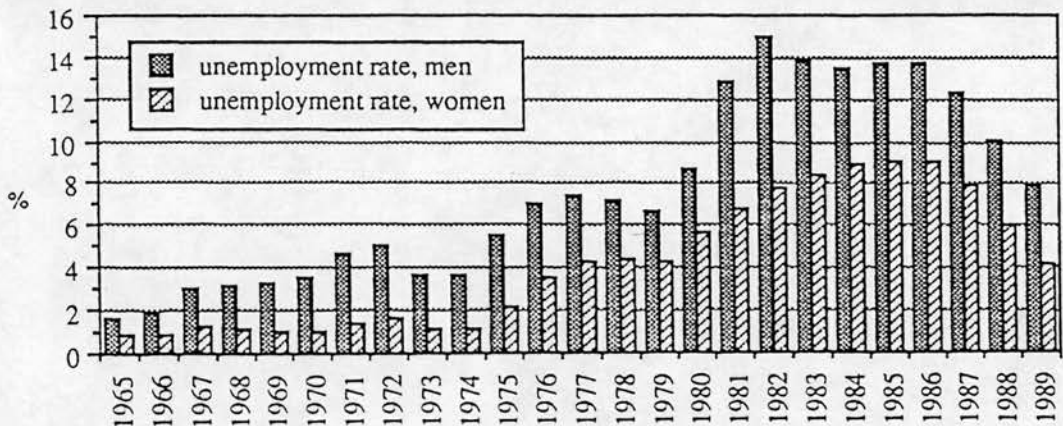
As the table shows, national rates in West Germany seem consistently to overstate unemployment while for Great Britain the differences point in both directions with only small deviations. It can be argued that the Eurostat rates, based on survey data rather than only registered unemployment (see above),

¹ For a discussion of the different concepts used by these organisations, see also Moy, 1988. See also Werner (1987) for a discussion of national definitions of unemployment and benefit legislations within the EC.

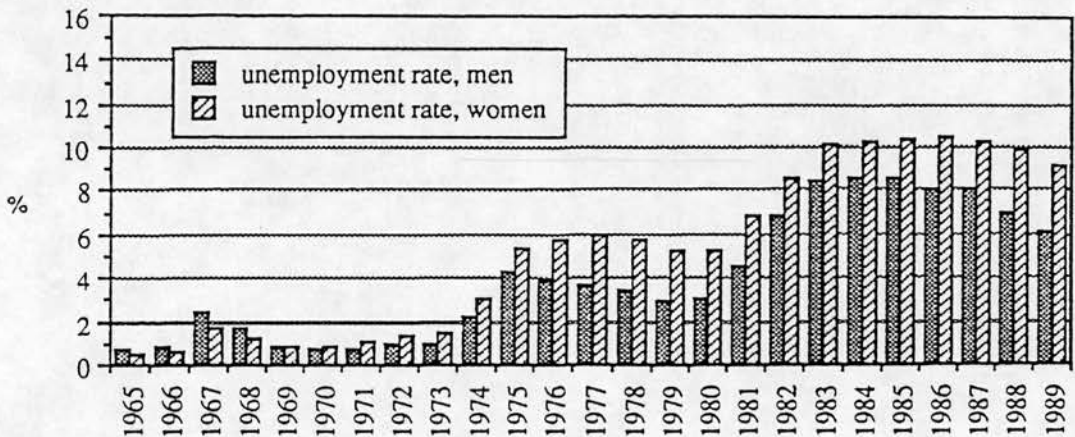
provide a more objective measurement of unemployment rates across countries since the same definitions for 'employment', 'labour force', 'unemployment' and 'seeking work' are used. However, standardised measurements also have to be used cautiously and need further interpretation not only because of remaining problems of comparability (see Sorentino, 1981; Moy, 1988). More importantly, even standardised methods hide relevant differences between countries, for example the distribution of employment. This will be illustrated by examining unemployment rates of men and women in Great Britain and West Germany.

figure 4.8: unemployment rates by gender

(a) Great Britain



(b) West Germany



source: Rose et al., 1988, p. 52; *Employment Gazette*, various issues; *Bundesanstalt für Arbeit*, 1990; *Arbeit und Sozialstatistik, Hauptergebnisse*, 1989

As the national data show, unemployment rates for women in Great Britain have been consistently lower than male unemployment rates, the reverse is true for West Germany. One explanation for this is that in Great Britain unemployed

women, especially married women, often do not claim social security benefits and thus have not been counted as unemployed since October 1982 (see above). Also, until 1982, only men had the right to claim assistance benefits on behalf of the family even if the woman was the household's unemployed breadwinner. Moreover, before 1977, married women had the option to pay reduced national insurance contributions and, in return, would forego the right to unemployment insurance benefits. Also, while in both countries women are far more likely to be in part-time work than men, proportionately more British than German women are employed on a part-time basis, which can imply employment not covered by insurance entitlements (see Hinrichs, 1991 and Hakim, 1989).

Other factors are important however. The general trend in industrialised nations towards a declining proportion of labour employed in production and growing employment levels in private and public service sectors has been more pronounced in Great Britain than in West Germany. In comparison with the rapidly declining industrial sector in Great Britain, the West German economy continues to rely heavily on a strong export-orientated industrial base. By the mid 1980s, two thirds of the British labour force was employed in the service sector and 32% (8 million people) in industry. In comparison, in West Germany 41% (10 million people) worked in manufacturing while the service sector employed just half of the labour force (OECD, 1987). Since women are predominantly employed in the service sector, and manufacturing and construction were harder hit by unemployment in the 1970s and the 1980s, unemployment rates for men have been higher than for women in Great Britain since the service sector has women 'somewhat shielded from the recession' (Sorrentino, 1981, p. 177). Unemployment in West Germany has of course also affected the industrial sector more than the service sector. However, the relative size of the service sector is smaller and thus has acted less as a 'shield' against female unemployment. Shedding labour in West Germany has especially affected workers in manufacturing and other sectors in a peripheral position (less stable and lengthy work records, casual labour, unskilled and semi-skilled workers etc.), including women disproportionately. This is a major factor which explains that unemployment rates for women have been consistently higher in West Germany since the beginning of the economic crisis in the 1970s (see Rose et al. 1988, p. 52).

By taking account of the effect of 'discouraged' workers (in this case women), standardised unemployment rates for women in West Germany can be expected to be even higher than male unemployment rates compared with the

margin depicted in nationally registered unemployment . In Great Britain there should be a reduction of differences in unemployment rates between men and women. This is confirmed by the table below which compares national statistics with Eurostat data.

table 4.2: Differences between male and female unemployment rates in Great Britain and West Germany (1984 - 1989)

	United Kingdom		West Germany	
	based on national unemployment rates	based on Eurostat data	based on national unemployment rates	based on Eurostat data
1984	4.6	1.3	-1.7	-2.4
1985	4.6	0.8	-1.8	-2.4
1986	4.6	1.8	-2.5	-2.7
1987	4.4	1.0	-2.2	-2.6
1988	4.0	0.4	-2.9	-3.0
1989	3.7	0.6	-3.0	-3.1

source: calculations based on figure 4.8 and Eurostat, *Eurostatistics*, 3, 1991

Even internationally comparable statistics do not cover these differences in employment between countries and are in need of further consideration of, for example, national patterns of the distribution of paid employment. More than in other large economies, traditional family patterns of male full-time waged employment and non-waged female work in families are still prevalent in West Germany. Although this has become less of a reality for an increasing part of the West German population, the gender division of paid employment is wider than in Great Britain and indeed in most other large industrialised countries (see Leibfried and Ostner, 1991). By 1986 almost 64% of women aged between 15 and 64 years were in paid work in Great Britain compared with just 48% in West Germany (Rose et al., 1988, p. 49 and p. 50).

Considering these differences, it can be argued that West German unemployment rates tend to be somewhat understated in standardised statistics in comparison with countries with higher female labour market participation rates. Using survey data and taking 'discouraged workers' into account does not fully appreciate the effect of West Germany's 'incomplete modernisation' (Leibfried

and Ostner, 1991) with regard to the predominance of male full-time employment in industry and the relatively small size of the service sector. The point here was to emphasise that even standardised unemployment rates are not 'objective' and only comparable if further considerations not only about the distribution of unemployment but also of employment patterns are made. Both national and comparative statistics have to be set into a wider context in order to be interpreted adequately.

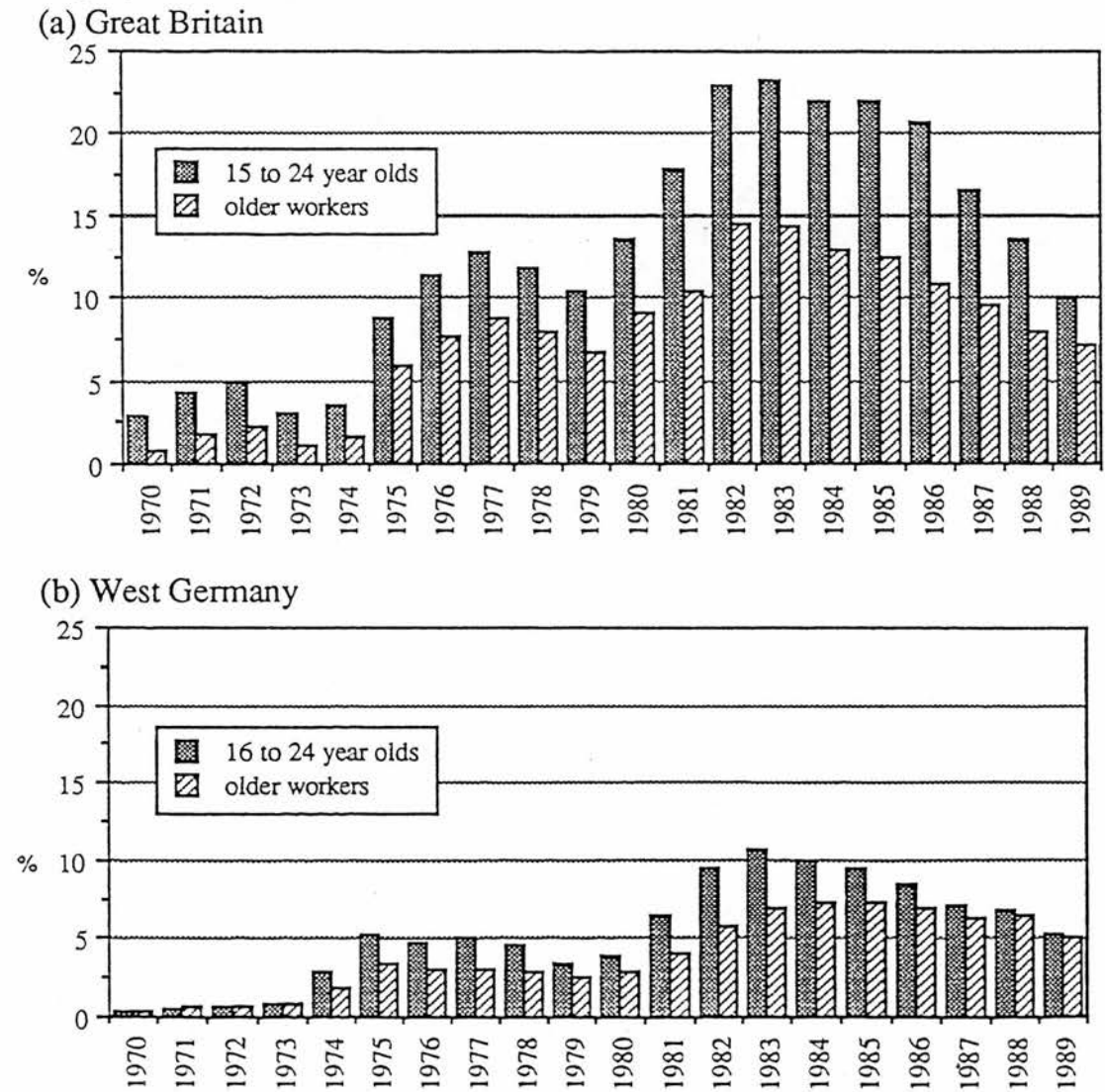
Yet, for the purpose of this study the monthly announcements of the latest jobless figures by the Federal Labour Office in West Germany and the Department of Employment in Great Britain appeared more important than a strict comparability of unemployment rates and levels between countries. National figures can at least indicate a general trend in unemployment, and, more importantly, they function as a frame of reference for political statements and debates and thus as a context for policy changes in the respective countries. However, it should be noted that national debates of changes in unemployment figures and of the implication of high unemployment on different sections of the population might have been significantly different if standardised rather than national unemployment statistics had been applied.

Apart from differences in unemployment rates between men and women, the age distribution of unemployment is another significant difference between the two nations. In both countries, unemployment rates at both ends of the working age spectrum are higher than average figures. Figure 4.9. (based on national statistics) shows unemployment rates of workers younger than 25 years in comparison with jobless rates of older workers. High youth unemployment is often explained by referring to a lack of skills, experience and productivity against younger workers. Also, often at times of economic crises a young person, rather than an established older worker, is made redundant according to the 'last in, first out' principle. However, while in both countries young people are disproportionately affected by unemployment, youth unemployment in West Germany seems to have been lower than in Great Britain.

The comparatively less severe jobless situation for young people in West Germany has often been explained with reference to the tradition of the 'dual system' of education and training for most 16 to 19 year olds. Intending to bridge the transition between school and work this system involves company-based employment (often in the form of an apprenticeship) and vocationally related education provided by the state. As Rose et al. (1988) put it, the combination of work experience and training 'places most German youths in a

different position from British youth who either look for full-time employment at age 16 with no experience or qualifications, or leave school at 18 with academic qualifications but no work experience' (ibid., p. 55). As will be described in Chapter 8, in 1988 the government in Britain abolished independent social security rights for almost all young people under the age of 18 and guaranteed a place in a Youth Training Scheme for unemployed school leavers in return (for details, see Roll, 1988 and Stewart and Stewart, 1988). It remains questionable whether these changes will improve the situation for young workers in the long term.

figure 4.9: youth unemployment rates (workers under 25) in comparison with unemployment rates of older workers

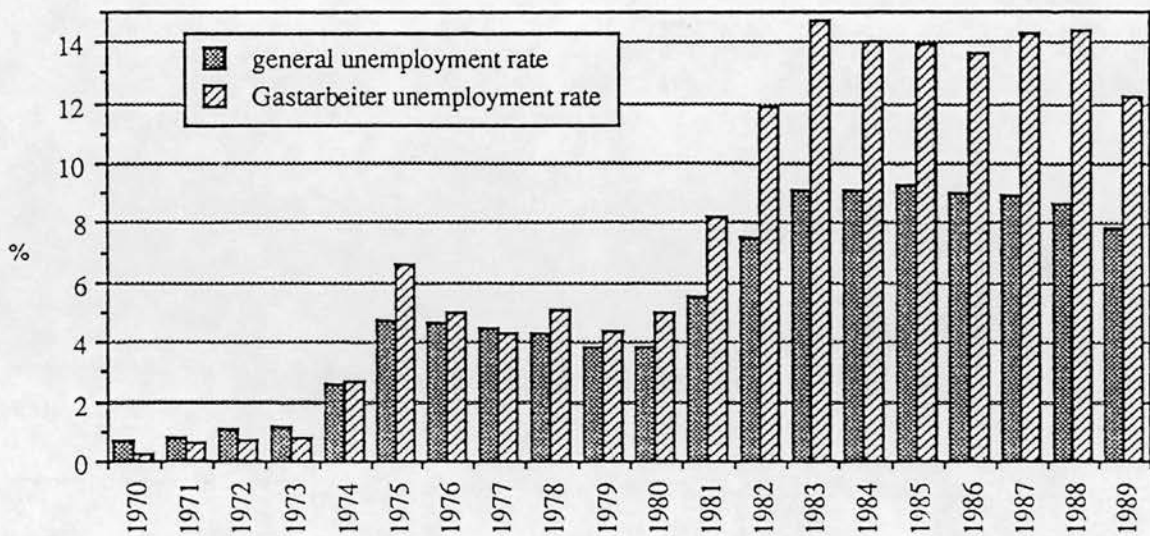


source: Rose et al., 1988, p. 54; Eurostat, *Eurostatistics*, Data for Short-term Economic Analysis, 11, 1991, p. 44

Workers at the other end of the age spectrum are also disproportionately affected by unemployment. Older workers are often perceived by employers as inflexible and judged to be past their best performance. This makes them prone to redundancy and, once older workers have become unemployed, employers are very reluctant to give them a fresh start. Yet, in contrast to younger workers for whom assistance is given to enter employment, governments in both countries have attempted to reduce visible unemployment for older workers by offering various options to leave the labour force. As indicated earlier, registering for employment has become voluntary for some older unemployed workers in both countries (see Chapter 8) and early retirement schemes were introduced in the first half of the 1970s in West Germany. Another programme in 1984 offered employees the option of retiring at the age of 58 with a subsidy from the *Bundesanstalt* equal to 65% of previous gross earnings. Also, the number of people retiring on health reasons increased after regulations concerning access to invalidity pensions were made less stringent. In Great Britain, unemployed men over the age of 60 were offered higher supplementary benefit rates in return for ceasing to register as seeking work, and a job release scheme was introduced with the aim of encouraging part-time work for older workers. As a result, the rate of unemployed workers over the age of 60 has fallen in both countries. However, for workers between the age of 55 and 59, unemployment and long-term joblessness remained disproportionately high. As Chapter 8 will show, in West Germany this contributed to the decision to extend entitlement periods for unemployment benefit selectively in the mid 1980s.

Another group disproportionately affected by unemployment are foreign workers (see figure 4.10). During the 1960s, workers primarily from Turkey but also from other countries were invited to come to West Germany in order to alleviate a shortage of labour (see chapter 5). By the 1970s *Gastarbeiter* represented 9% of the total labour force, but with the rise in unemployment a few years later, the government started to introduce subsidies to encourage foreign workers to return to their native countries. However, while the proportion of foreigners in employment dropped, the total of the foreign population remained fairly stable around 4.5 million, expressing growing average family sizes.

figure 4.10: unemployment rate of foreign workers (*Gastarbeiter*) compared with the general unemployment rate, West Germany*



source: based on Rose et al., 1988, p. 58; *Bundesanstalt für Arbeit*, 1990, p. 685

*unemployed *Gastarbeiter* as a proportion of all employed and unemployed
Gastarbeiter

In Great Britain too there has been an influx of migrant workers since the 1950s and 1960s but 'for a mixture of political and technical reasons, there are no accurate employment office or census figures about the number of New Commonwealth (that is, non-white) immigrants in the population or the labour force' (Rose et al., 1988, p. 59). Also, unlike West Germany, there was no option for exporting unemployment by encouraging repatriation since immigrants from Commonwealth countries were granted full citizenship and residential rights in Great Britain. Thus, 'New Commonwealth immigrants and their offspring are now an established, albeit small portion of the labour force, more prominent in some groups (youth, inner cities) and disproportionately in jobs not requiring high formal qualifications' (Rose et al., *ibid.*). Since low skilled and low qualified workers are generally disproportionately affected by unemployment, we can therefore assume that the non-white section of the British workforce has a higher average unemployment rate than the white section.

Finally, the regional incidence of unemployment varies considerably in both countries. In Great Britain the division between southern parts of the country with relatively low levels of unemployment, and high jobless rates predominantly in areas of heavy industry and shipbuilding such as the North, North West and Scotland, has been established since the interwar years. When

unemployment rose generally, regional differences widened further. By the mid 1980s average unemployment rates in the South had reached levels between 7% and 9% but up to 15% in the North (and almost 20% in Northern Ireland) (Rose et al., 1988, p. 60). A similar North-South divide exists in West Germany. Throughout the 1980s small northern *Länder* such as Bremen, Hamburg, Berlin and Schleswig Holstein and old industrial centres such as the Saarland and the industrial heartland Northrhine-Westphalia, had unemployment rates above national averages. The concentration of new industries and car manufacturing in southern *Länder* contributed to relatively low average unemployment levels in Baden Wurtemberg and Bavaria (see *Bundesanstalt für Arbeit*, 1990, p. 665). As the subsequent analysis will show, these differences are important with regard to the focus of this study since long-term unemployed have often exhausted their entitlement to centrally financed insurance benefits and have therefore to resort to locally financed and administered social assistance.

This brief description of some of the main features of the distribution of unemployment in the two countries could, of course, be extended by disaggregating unemployment further. However, for the purpose of this study the discussion so far should be sufficient for providing a background for the following analysis. I will go beyond quantitative developments and discuss, among other things, changing official and public perceptions of unemployment as a social and political problem during the period under investigation. Different interpretations of the level and the nature of unemployment have led to varying political reactions and debates in both countries and contributed to, for example, changes in economic and fiscal policies (see Scharpf, 1987a and b; Gamble, 1990), 'active' labour market policies (Webber, 1984; Moon and Richardson, 1985) and industrial policies. However, social security arrangements did not remain unscathed (see, for example, Alber, 1986; Adler et al., 1991) which will be demonstrated in the following four chapters which analyse policy changes in benefit arrangements for unemployed people since the mid 1960s in Great Britain and West Germany.

To briefly sum up this chapter, I have shown that both national and standardised unemployment data have to be interpreted cautiously and are in need of additional information about, for example the division of paid employment in different countries. For the purpose of this analysis however, national statistics are important concerning the perception of, and debates on, unemployment as a political and social problem within the two countries under investigation. In the first part of this chapter, I outlined the major characteristics of current benefit

arrangements in Great Britain and West Germany. A central argument in this study is that political responses to unemployment concerning changes in unemployment compensation have been influenced by different institutional social security structures and benefit arrangements in West Germany and Great Britain. In the next four chapters I will analyse in detail the implications of the respective institutional arrangements on shaping policy decisions.

Chapter 5

Unemployment compensation at a time of a perceived shortage in skilled labour - the second half of the 1960s

During the 1960s there was a gradual but steady move towards more capital intensive methods of production in both of the countries under consideration. Forecasts predicted an acceleration of changes in production processes (automation, new technology), a higher demand for qualified workers, and the need to transfer labour from declining to expanding industries. Both the British and the West German governments recognised these developments and demands. Economic restructuring was accepted as an inevitable and necessary precondition to achieving high economic growth rates. The idea in both countries was to accommodate changes with the help of more forward planning with regard to economic policies on a cooperative basis, involving a consultation of both unions and employers. Legislative activities in both countries indicated a similar perception of economic problems. However, policy outcomes differed in the two countries, influenced by particular structures of institutional and organisational settings.

In this chapter I will demonstrate that income support schemes for the unemployed were not merely affected by these changes but played a functional, although complementary and subordinate, role within a range of policies designed to encourage labour mobility. However, by 1966/67 there was a significant rise in unemployment levels in both countries compared with previous years when annual average unemployment rates rarely exceeded 2% in Great Britain and 1% in West Germany. While the increase in joblessness was expected in Great Britain, it came as a surprise in West Germany. Also, while unemployment levels remained high (for the late 1960s) in Great Britain, an economic recovery in West Germany caused the level to decline quickly. I will show that these developments had a major impact on policy outcomes with regard to changes in unemployment compensation in both countries.

In general, more generous unemployment benefit rates were introduced in West Germany in 1967 and the preparation of a new legislative framework, on which both labour-market and unemployment insurance regulations are based, was speeded up. In Great Britain on the other hand, the perception of more generous unemployment compensation as a complementary device for the restructuring of labour markets was restricted to recipients of insurance benefits and better paid workers. Also, after 1966, more coercive policies were introduced which applied mainly to unemployed claimants of means-tested assistance benefits. This apparent change of policies led to the decision to divide the subsequent analysis of developments in Great Britain into two parts. Firstly I will consider benefit changes leading up to and including the National Insurance Act 1966. Subsequently I will examine the time period between 1966 and 1968.

Great Britain

1. The National Insurance Act 1966

1.1. Responses to past and to anticipated economic problems

Between 1950 and 1964 British economic growth rates, measured in Gross Domestic Product (GDP), increased at an average rate of 3%. Compared with its pre-war record this was an improvement but in relation to other countries it was less impressive because 'during the 1950s and early 1960s France, Germany, Italy and Japan all notched up growth rates of 5 per cent or more' (Stewart, 1977, p. 8). Also, inflation rates had averaged 4% annually since the end of the war and added to Britain's decline in international economic competitiveness under a Bretton Woods system of fixed exchange rates.

Successive Conservative governments responded to economic problems with 'stop-go' policies. A periodic deflating of the economy reduced aggregate demand through increased taxation and cutting back of public expenditure. A subsequent fall in imports and a relatively slow rise in exports improved the balance of payments but also fuelled price and wage rises. Throughout the 1950s, unemployment had remained low with rates generally below 2.5%.¹

¹ There were 500,000 (2.1%) people registered as unemployed in 1962 and 612,000 (2.6%) in 1963, calculated on an average annual basis (see British Labour Statistics, Historical Abstracts 1886 - 1968; 1977, p. 329).

However, a particularly firm deflationary package, introduced in July 1961, caused an increase of the officially registered unemployment rate to the, by then, highest post-war level of 2.6% in 1963. A reduction in interest rates in 1962 and an expansionary budget in 1963 brought the unemployment rate down again to below 2% between 1964 and 1967.

The early 1960s were an important time period with respect to a shift in the perception of economic policy making and planning in Great Britain. There was a 'fairly broad consensus among the economic establishment that the UK should ambitiously aim at faster but steadier growth' (Keegan and Pennant-Rea, 1979, p. 18). Influenced by the failure of previous short-term economic policies, the government hoped to create conditions for a more stable path of economic growth by the adoption of longer term plans and by involving both unions and employer representations in economic planning. The need for a more systematic and planned economic expansion was accepted by both the Federation of British Industry and the Trades Union Council (TUC), but also by the Labour Party. This enabled Selwyn Lloyd, the Chancellor of the Exchequer, to set up the National Economic Development Council (NEDC) as the perhaps most indicative sign of the new corporatist emphasis in economic policy thinking. It brought together representatives from trades unions, employers organisations and the government and functioned, despite a lack of any real power, as a forum for regular discussions between the three sides about obstacles to faster growth.

Reports published by NEDC can illustrate the widely shared perception concerning conditions for faster and steadier economic growth. A particular concern was a more acute shortage of skilled manpower in the future. In its second report the Council emphasised the need to transfer workers from declining to expanding industries in order to match and support a 'more rapid industrial and technological change' (NEDC, 1963b, p. 10). Higher mobility of labour could be achieved, it was argued, by provisions such as better transfer payments, resettlement allowances, better training facilities and income maintenance payments for unemployed workers. Unless such measures were taken, 'the fear of redundancy will make workers oppose change and employers will be less willing to release unnecessary labour for employment elsewhere' (ibid., p. 10). Rather than a supplement to the existing national unemployment insurance benefit scheme which would bring 'the total unemployment benefit too near to the earnings of lower paid workers with families' (ibid., p. 13), a compulsory national redundancy scheme was considered. Also, better unemployment benefit payments to higher paid workers could be secured by a

fully wage-related contribution and benefit system. Such a scheme however would include a fundamental restructuring of the existing national insurance scheme which was believed only to be realistic in a long term perspective.

The government's legislative actions leading up to (and including) the National Insurance Act 1966 indicated a response to these and other demands for an 'efficient and flexible use of manpower' (Ministry of Labour Gazette, August 1964). The implementation of the Industrial Training Act (March 1964), the Contract of Employment Act (July 1964) and the Redundancy Payment Act (December 1965) were all signs of a new emphasis given to the objective to use existing labour resources more effectively. The aim of the Industrial Training Act was to secure an 'adequate supply of properly trained men and women at all levels of industry' (Barr, *New Society*, 6 October 1966). The idea was to set up Industrial Training Boards which would have the power to impose a levy upon employers in industries covered by the scheme. This would allow the boards to finance grants paid to employees who undertook training (see Hansen, 1967). After having been in force for two years, Barr (*ibid.*) concluded that the scheme was - despite the small number of redundant workers receiving training - 'on balance a success'. With regard to support for jobless people however the scheme was less successful. By 1973 a total of 13,000 places for unemployed workers in the then 52 training centres (see George, 1973) was marginal in relation to the overall number of unemployed people and also in comparison with other countries with 'active' labour market policies, e.g. Sweden. The Contract of Employment Act imposed a duty on employers to give their workers a written statement of their main terms of employment. It also gave both employers and employees rights to minimum periods of notice to terminate employment. The length of this notice was related to the previous period of employment.

Of greatest importance in this context however is the Redundancy Payment Act. Unions were contacted about the proposed scheme in November 1964 and plans were provisionally accepted by the TUC provided redundancy payments would not affect unemployment benefits (see TUC, 1965). Some amendments by the unions (see *The Times*, 7 January 1965) later resulted in the reduction of the proposed qualifying age from 21 to 18. Employers were critical of the proposal, which at that stage incorporated a payment of one week's wages for each year of service with the previous employer to all workers who were made redundant. The National Association of British Manufacturers agreed with the principle of compensation only for workers who had been with the same employer for at least ten years. This, it was argued, was in 'itself a valuable

thing' and would also increase the overall job mobility. Also, the payment should be made entirely by the government (see *The Times*, 12 May 1965).

The Act, which eventually came into force in December 1965, gave employees with an uninterrupted previous service of at least two years with one employer a right to compensation if the reason for a dismissal was based on the disappearance of their particular job. The payment was tax-free and did not affect unemployment benefit levels. Individual levels were dependent on the length of previous work records and on age. The scheme was financed by weekly contributions to a Redundancy Payment Fund which were collected from the employer along with the, then, flat-rate national insurance contributions. Employers received a rebate from the fund of between two-thirds and seven-ninths of the redundancy benefit paid to the dismissed worker. In 1967 (the first year in which complete figures were published) 241,581 payments were made of a total of £50.2m. Employers were reimbursed with £37.7m (Mukherjee, 1973, p. 258).¹ By comparison, up to the year in which the Redundancy Payment Act was implemented, Mukherjee estimated the annual amount paid out by employers to redundant workers to be 'not much more than £2 million' (ibid., p. 66)

Of interest in this context is the assumption that the increase in the number of disqualified cases for unemployment insurance benefit after 1965 might have been affected by the introduction of the Redundancy Payment Act.² Fenn (1980) argues that while before 1965 employers were faced with relatively low 'firing costs' (ibid., p. 245), after the implementation of the Act they were obliged to pay grants to redundant workers which were reimbursed only in part by the public fund.³ 'Before 1965, separation payments were so negligible that there was little incentive for the employer to report voluntary leaving or misconduct, particularly on the understanding that it would lead to financial hardship for the employee, against whom he may have borne no ill feelings' (Fenn, ibid., p. 246).

The main point of the Act with regard to this study however lies elsewhere. Providing benefits for workers according to their length of former service and income was a breach with traditional British principles of granting universal flat-

¹ Between 1967 and 1970 the annual number of payments stagnated around 250,000. In 1971 the figure rose to 370,000 payments and the total amount paid out was £108.2m of which £57.1m was reimbursed by the fund (ibid.).

² According to Fenn (1980, p. 241, figure 1) the number of disqualified cases for receipt of unemployment insurance benefit on the grounds of 'voluntarily leaving the job' rose from approx. 60,000 in 1965 to 90,000 in 1968 and on the grounds of 'misconduct' from 25,000 to approx. 50,000 during the same period.

³ Up to March 1969 the average rebate from the fund was 74%. The Redundancy Amendment Act 1969 lowered the average rebate to 50%.

rate benefits (see Chapter 3). The outcome of the new idea was not simply to allow workers to top up their unemployment benefit but to reward employees who showed particular loyalty and compensate them for their loss of job security and - at least for a while - accustomed standard of living. Thus, payments were awarded to successful 'job holders' (Mukherjee, *ibid.*, p. 44). Workers who had already experienced unemployment spells and others whose normal work pattern included periods in and out of jobs for other reasons were disadvantaged. Thus, the perceived national necessity to faster economic growth by enhancing job mobility was apparently directed to better paid workers with continuous employment records only. Financial incentives had to be provided in order to weaken their resistance to redundancies. By comparison, lower paid workers and people in casual employment might have been considered as 'flexible' and mobile enough. I will return to this issue in the second part of this chapter.

1.2. Plans for earnings-related unemployment benefits

Earnings-related additions to so called short-term insurance benefits (which covered mainly sickness and unemployment) were introduced by the Labour administration in 1966. But the idea of linking benefits to earnings had already been spelled out during Labour's time in opposition. A pamphlet from 1963 envisaged that all national insurance benefits should be tied to former wages in a two-tier system. The document (Labour Party, 1963) was written by Labour's 'Study Group on Social Security and Old Age', headed by Labour MPs Douglas Houghton and Richard Crossman and included a number of academics from the London School of Economics such as Richard Titmuss, Peter Townsend, Brian Abel-Smith and Tony Lynes. Richard Crossman (1972) emphasised the importance of the contacts and cooperation between the Labour Party and these academics who since the mid 1950s had been propagating a national superannuation scheme based on earnings-related contributions and benefits in order to alleviate the situation of old age poverty. In 1958 the Labour Party adopted this idea as an official policy plan with regard to pensions and five years later, while the social security debate was still concentrated on new pension plans (see Crossman, 1972), Margaret Herbison, then shadow minister of Pensions and National Insurance, announced new initiatives also concerning unemployment insurance.

A purely wage-related system was not regarded as desirable by the Labour Party because of possibly inadequate benefits for lower paid workers. The flat-rate element had to be retained but indexed to national average earnings rather

than simply to price rises. While this was a 'significant change' to Labour's previous policy, only in this way, it was argued, could it be secured that recipients of flat-rate benefits would participate 'automatically (in) rising levels of national prosperity' (Labour Party, 1963, p. 225). An additional graded element on top of the flat-rate sickness and unemployment benefit was to be paid in relation to former earnings for a period of one year. After that time the wage-related benefit would be replaced by higher flat-rate payments of one third of average earnings for single people and one half for a married couple. The overall payment during the first year of unemployment (or sickness) was to be fixed at one third of normal earnings for a higher paid worker and two thirds to three quarters for the lowest paid employee (*ibid.*, p. 226). The increased costs of the new scheme were to be met by higher national insurance contributions for employers and employees with above average earnings. It was emphasised that contribution rates would still be below those in other European countries and affordable on the basis of a 'success of a dynamic industrial policy' (*ibid.*). Labour pointed out how important the new short term benefit plans were in relation to its economic policy in the light of expected advancements in automation of production.

However, a reform of unemployment insurance benefits was not only planned by Labour. In its 1964 election manifesto the Conservative Party announced the introduction of a graduated supplement to the existing flat-rate social insurance system which would protect 'against a sharp fall in income' during a spell out of work (Conservative Party, 1964). Such a system was regarded as a condition for necessary 'redeployments of labour' (*ibid.*). A reformed unemployment benefit scheme should accompany changes in 'markets, methods and machines' in accordance with redundancy and retraining schemes and provisions of the Contract of Employment Act.

Despite the precedent of a move towards a graduated retirement pension scheme in 1959, these plans seem to indicate a tentative but significant shift away from the traditional British principle of flat-rate universal benefits towards a graduated system of social insurance payments for jobless people. However, these plans have to be interpreted in the light of the commonly perceived need for economic and labour market restructuring which had to be assisted by state intervention. New forms of economic planning were given a high priority by all three major parties in their election manifestos in 1964.¹

¹ Just how much the idea of 'planning' was widely accepted is also underlined in the Liberal Party's Manifesto from 1964, which announced the intention to draw up a plan for economic growth and spelled out the need for 'more skillful management of the Nation'.

While the Conservative manifesto supported the idea of economic planning 'by consent and not compulsion' (ibid.), Labour more specifically proposed the creation of a Ministry (later introduced as a Department) of Economic Affairs which would have the task to formulate a 'national economic plan' with both sides of industry. The aim was to increase the overall level of investment, expanding exports and replacing imports. As part of a 'national plan', Labour would 'extend joint consultation in industry, develop new techniques for forecasting future manpower needs and adopt radical new measures to reconcile security with mobility.' (Labour Party manifesto, 1964, p. 272).¹

1.3. Labour in power and the National Insurance Act 1966

While preparing the 1963 budget the Conservative government was aware that the economy had already begun to expand. Nevertheless tax concessions were granted in order to put the economy on the 4% growth path recommended by the NEDC and to contribute to a long term solution to the balance of payments problem. The boom in private and public investment over the following year was not dampened - possibly due to the forthcoming elections in 1964. The incoming Labour government in October 1964 under Harold Wilson as Prime Minister, intended to reject measures which would return to the 'stop-go' policies of its predecessor in spite of a growing balance of payment deficit. But the conflict of economic policy aims was clear. Faster growth was the aim and was in fact already taking place. However, it 'was being caused largely by too great pressure of demand on resources - precisely the sort of growth many economists had warned against.' (Keegan and Pennant-Rea, 1979, p. 22). Thus, Labour introduced a number of deflationary programmes with the hope of dampening down the economy.

But the measures had no great effect. Early 1965 incomes and consumption rates were rising and unemployment was at the low level of 1.3%. In the budget in April of that year James Callaghan, the Chancellor of the Exchequer, announced his intention of reducing domestic demand further (see Cohen, 1971, p. 75) by increasing (mainly indirect) taxation, and another set of deflationary measures was introduced in July 1965 which included a reduction of public investment. In the autumn of the same year economic problems were pressing, especially in relation to the balance of payments which ceased to improve. Prices

¹ The 'National Plan' was eventually published in September 1965 (Cmnd 2887). It set out a target rate for economic growth of 25% to 1970, plans for public investments, manpower policies and an incomes policy.

increased at 'an excessive rate' (Cohen, 1971, p. 76) and personal income rose by almost 9% (ibid.). As a further attempt to dampen down demand James Callaghan announced cuts in public expenditure and also the need to defer 'some of the desirable social reforms' spelled out in Labour's manifesto. 'While priority must go to wage-related unemployment and sickness benefits, the government have decided that it will not be possible to introduce an income guarantee scheme or remove the remaining National Health Service charges in the next session' (HCD, 27 July 1965, col. 230).

Against this background, a review of the social security system (promised in the 1964 election manifesto) commenced in November 1964 under the guidance of Douglas Houghton, who had become Minister without Portfolio, in charge of reviewing social services policies, and a member of the Cabinet. The review eventually lasted three years without providing any substantial change in social security or guidelines for future social policy directions. Margaret Herbison, Minister of Pensions and National Insurance, was not a member of the Cabinet and often differed in opinion about social policy priorities with her overlord Houghton (see for instance Crossman, 1975, p. 403; McCarthy, 1986, p. 50; Banting, 1979, ch.3). She pressed hard in favour of adherence to Labour's election pledges given in 1964, especially with regard to the introduction of an income guarantee and a nationwide superannuation plan (see Crossman, 1972). By mid 1965 the economic conditions had changed however and Margaret Herbison had to give in to the Treasury, but also to Douglas Houghton and others, who gave priority to an introduction of wage-related insurance benefits. (see McCarthy, 1986, p. 50).

In his diaries, Richard Crossman (then Minister of Housing) recalls Margaret Herbison's pledge to include widows in the scheme (Crossman, 1975, p. 361). Her position in Cabinet was weak however where powerful Ministers preferred short-term benefits to be paid for the unemployed and sick only, because they were 'essential for the modernisation of British industry, along with redundancy payments' (ibid., p. 361). Also, earnings-related insurance benefits involved comparatively low costs through simultaneous increases in insurance contribution rates. By comparison, other social security plans, announced in the 1964 election manifesto and other subsequent publications, would have required additional public expenditure which was regarded as economically damaging by a majority within the Cabinet. The introduction of wage-related insurance benefits was welcomed by the 'economists' in the Cabinet because of their assumed positive effect on labour mobility and to cushion an expected rise in

unemployment. Eventually, the Cabinet was won over and in a meeting on 7 December 1965 a 'final decision on wage-related sickness and unemployment benefits didn't take long' (Crossman, *ibid.*, p. 403).

The government's legislative proposals were published in January 1966 (see *The Times*, 27 January 1966) and the National Insurance Bill received its second reading on the 7 February 1966. Margaret Herbison, announced three major changes,

- the increase of the existing flat-rate unemployment insurance benefit and the standardisation of its duration;
- the exclusion of workers temporarily laid off or suspended from entitlement to unemployment benefit;
- the introduction of an earnings-related element on top of flat-rate unemployment and sickness benefits.

The existing system included a duration of unemployment benefit payment dependent on a person's contribution and benefit history. This link, it was argued, might have been reasonable but seemed now 'out of touch with modern ideas of social security' (HCD, 7 February 1966, col. 46). It would be 'unfair' to pay shorter periods of unemployment benefit 'to the man who has worked in a less stable industry and has been harder hit by economic factors' (*ibid.*). Also, the former system of added days¹ had been administratively complex and was to be abolished in favour of a maximum duration of flat-rate unemployment benefit of 312 days (52 weeks) in all cases.

In her speech the Minister emphasised that the legislation would give a 'new impetus to the part that unemployment benefit can play in the economic and social conditions of today' (*ibid.*, col. 42). In order to 'break once and for all with the 'dole' image and to move towards 'a fresh and constructive realignment of the responsibilities of the state and employers' (*ibid.*, col. 46) the exemption of temporarily suspended workers from entitlement to unemployment benefit was proposed. Administrative 'anomalies' could be eradicated and the employment exchange would not be dealing with claimants any longer who 'already had an employer' and who therefore were not 'really unemployed' (*ibid.*). The government argued that employers should take over the responsibility of paying a guaranteed minimum wage to those workers whose employment had not been terminated and for the first six days unemployment benefit would no longer be paid. In a transitional period of three years,

¹ Before 1966 the standard duration of eligibility for unemployment benefit was seven months. However, for those with a better contribution history 'additional days' could be added which could result in a maximal duration of payment of 19 months (see Ministry of Social Security, 1967b, p.17).

unemployment benefit would still be payable as previously, in order to give unions and employers time to come to agreement.

The main feature of the Bill however was the introduction of earnings-related transfers on top of flat-rate unemployment and sickness benefits. Margaret Herbison stressed this provision as 'complementary' to the Redundancy Payment Act (see above), i.e. as instrumental in promoting higher mobility of labour and consequently contributing to the increase in economic growth. Nevertheless, the new benefit also had 'compelling social reasons' (ibid.) since it prevented a 'drastic fall in income' in the case of unemployment or sickness.

The system would include a payment of an earnings-related supplement (ERS) to all persons over 18 on top of their regular flat-rate benefit of one third of their previous average weekly earnings between £9 and £30 for a maximal period of 6 months. As a 'natural feature' (HCD, ibid., col. 38) a cut-off point at 85% of the former gross earnings was inserted. This was not opposed by any speaker during the debate at the time presumably because it was regarded as necessary not to undermine work incentives. Sir Keith Joseph, the Opposition spokesman on labour and the social services, merely commented on the 85% ceiling as being of an 'internationally very high level' (ibid., col. 58).

The lower ceiling of £9 was identical with the lower level of earnings at which graduated contributions started and the upper level of £30 was equivalent of national average earnings (ibid., col. 39). The annual gross income of the tax year preceding the benefit year was divided by fifty to obtain the 'reckonable weekly earning' figure which served as the basis from which to calculate the applicable amount for the ERS. This procedure meant that people, who were not in stable employment or had periods away from work due to illness, unemployment etc., which were credited for only in the flat rate unemployment benefit scheme but not in the ERS, automatically received lower levels of the payment or even no ERS at all.¹ Also, low wage earners could be excluded altogether or receive reduced benefits due to the 85% ceiling - even though they might have paid some of the extra national insurance contributions towards it.

The provision to divide the annual income by 50 rather than 52 was justified by an estimated inflation rate of 4% which would erode the level of the supplement calculated on the basis of earnings out of date in the benefit year (see HCD, 16 February 1966, col. 1401) but administrative reasons might also have

¹ This point was criticised by Eric Heffer (Labour) during the debate. He referred to certain occupations (e.g. shipbuilding) where periods off work during the year were a common feature. He proposed applying only the period of the last four months before unemployment as the basis for calculation of the supplement.

been relevant here. However, the considerable time lag between the benefit year (from May in one year to April in the next) and the relevant contribution year (based on the previous tax year) could have been accompanied by higher inflation and increased wage levels which would have further eroded the real level of ERS. The decision not to pay the ERS for the first 12 days out of work was justified on the grounds of the very large number of short spells of incapacity and unemployment, which would have made the system more expensive. On the assumption of an unemployment rate of 2% and the receipt of ERS by 110,000 people at any time, Margaret Herbison estimated that the costs for the supplement would be about £64m for the first year (HCD, 7 February 1966, col. 40). In order to finance the scheme an increase of graduated national insurance rates from 4.5% (for incomes between £9 and £18) to 5% (between £9 and £30) was implemented. This was intended to raise about £76 million in the first full financial year (*ibid.*, col. 48).

The Conservative opposition supported the ERS and welcomed the Bill in principle (*ibid.*, col. 68). However, Sir Keith Joseph drew attention to those who would not gain due either to interruption of work or to low wages. For the latter the earnings-stop on ERS, though regarded by him as necessary, would cause suffering. There was also no help offered for the long-term unemployed. Individual opposition MPs also argued that, in contrast with the sick who often suffer long term illness, the unemployed would need greatest help immediately after having been made redundant. While supporting the Bill, ERS would need amendments in the future. This point was willingly accepted by the government which repeatedly referred to the earnings-related scheme as an interim measure which would be improved after the general review of social security had been completed (see, for example, HCD, 7 February 1966, col. 37). Generally however there was broad support for the Bill in Parliament which subsequently went through the legislative process very quickly and was implemented in October 1966.

1.4. Reactions outside Parliament

Outside the House of Commons too the ERS generally received a positive response. The TUC's main social security objective since 1963 had been an increase of all social security benefit levels which was regarded as a precondition before a wage-related system of unemployment and sickness benefits could be considered (see TUC, 1963, p. 152 and 1965, p. 158). Thus Labour's earnings-related benefit plans from 1963 were accepted only in principle and in the light of

the General Council's primary policy of providing adequate basic benefits and of an equitable system to finance the new scheme (see TUC, 1963, p. 91).

After the implementation of the National Insurance Act 1966 the TUC generally welcomed the new benefit but not without criticising its limitations (see TUC, 1966, p. 163). Firstly, the total sum of compensation (flat-rate and ERS) was considered unsatisfactory for lower paid workers, especially with larger families, who could still end up with benefits less than the level provided for by the National Assistance Board. For the same reason the 85% upper ceiling of the scheme was attacked. To alleviate the situation a substantial increase of family allowances was proposed. The General Council also demanded the extension of the period of entitlement to ERS to one year and to shorten the 12-day waiting period. The use of the previous tax year for calculating earnings was regarded as 'rough justice' (ibid., p. 164). However, administrative problems were recognised as inevitable. It was hoped a more 'up-to-date' reference period could be introduced in the near future. This remark is indicative of the TUC's overall attitude to the introduction of ERS. Although criticising the details, the scheme was received positively, mainly because it was interpreted as an improvement to the existing situation and also because the Bill was not introduced at the expense of increased flat-rate benefits. A speedy implementation of ERS with the assurance of its interim character seemed to have induced the unions to accept the changes and to make only general demands directed to future amendments.

It has to be noted however that earnings-related insurance benefits remained a relatively minor issue in the social security debate within the TUC. The almost indifferent position towards ERS was apparent when compared with other social security changes. The government's intention to stop unemployment benefit for suspended workers received much more attention at the 1966 Annual Conference. Similarly, the proposal to abolish the payment of unemployment benefit to people in receipt of an occupational pension caused more debate than the introduction of supplements to insurance benefits (see also TUC, 1965, p. 158). Also, compared with the coverage of the debate between the government and the unions (see *The Times*, 7 January 1965) and with employers (*The Times*, 12 May 1965) concerning the Redundancy Payment Bill or the publication of the 'National Plan' (*The Times*, 17 September 1965), the National Insurance Bill 1966 received little attention in the press. Its main features were simply described and it was reported that the government had contacted employers and the unions before exploring an earnings-related system (*The Times*, 27 January 1966).

Regular contributors to journals which concentrate more on social security developments than daily newspapers normally do, also devoted only scarce attention to the issue and commented more on issues related to the new planning policies in general.¹ Brian Abel-Smith (in *New Society*, 3 February 1966) was an exception. He welcomed the policies put forward in the Bill and the intention to implement the new legislation speedily. Taking the cost of going to work into account, he argued, 'a family man on a relatively low wage will hardly suffer any loss of income when he becomes sick or unemployed' (ibid.). The 85% ceiling was criticised but also regarded as a necessary element which 'runs parallel to the 'wage-stop' regulation in National Assistance'.² The government had given priority to short-term benefits, Abel-Smith assumed, because 'high unemployment benefits should make industrial change more acceptable' (ibid.).

The relative indifference of the reaction outside of Whitehall to the introduction of earnings-related benefits for unemployed claimants appeared remarkable considering the academic assessment of this policy innovation. Hauser (1970), for example, believed he was witnessing a 'fundamental change in philosophy and thinking of British social policy since the writing of the Beveridge report' (ibid., p. 13). This transition, he argued, started with the 1961 change to a partly graduated contribution and benefit system for pensions. The changes in 1966 were further evidence for a gradual move from the traditional objective in British social security of 'poverty alleviation' to 'income maintenance', concentrating more on the protection of an 'accustomed life style'. This 'modern approach' (Hauser and Burrows, 1969, p. 43) was welcomed for economic reasons - a better financing of the system - as well as social reasons because a 'graduated status principle' would be more appropriate at a time of rising living standards. A comprehensive wage-related unemployment insurance system would perform better as a 'mobility incentive scheme' (ibid., p. 114). Yet Hauser and Burrows argued that economic calculations were only partly behind the changes made (see ibid., p. 114, footnote 1).

However, these considerations do not explain the ease with which new legislation was implemented in 1966. One important reason appears to have been the perceived need for economic planning shared by all parties in the first half of the 1960s. As outlined, one aspect for facilitating economic restructuring and to soften its effect was the introduction of income-related benefits, which were

¹ See for instance Barr on training (*New Society*, 11 August 1966) and Bosanquet on redundancies (*New Society*, 17 November 1966).

² For the 'wage-stop' regulation see below.

planned by both major parties. Lynes (1968) stressed the point that the implementation of ERS was a 'bipartisan measure' which was 'perhaps significant' for its implementation in the 1966 Act (ibid.).

Some commentators argued that earnings-related benefits were only introduced so that the implementation and later the increase of earnings-related contributions could be justified. Maynard, for example, assumed that 'graduated benefits were merely a pill to sweeten the meal of graduated contributions' (1973, p. 43). This interpretation seemed to put too much emphasis on financial considerations. Of course, as outlined, the implementation of earnings related benefits was believed to be an inexpensive policy change at the time. Additional costs resulting from the introduction of earnings-related benefits were relatively low, especially considering the intention to raise national contribution rates simultaneously. By comparison, other plans such as the 'income guarantee', seemed like 'a financial albatross during the economic troubles of 1965' (Webb, 1975, p. 443).¹

However, merely stressing the financial advantages of ERS can lead to an underestimation of its role as one part of the overall plan to improve national productivity through a 'shake-out' of labour, which was widely perceived as a necessary condition for increasing economic growth. The question remains as to why the 1966 National Insurance Act in general and the ERS specifically attracted so little attention outside Parliament. Arguably, it might have been the relative secrecy of the preparation of the Bill before its publication and its ascribed 'interim' character afterwards which caused little interest. Also, other (mostly economic) policy areas were more topical - and more controversial - at the time, such as the prices and incomes policy. Social security debates were not dominated by problems concerning the unemployed but rather concentrated on changes of the pension system.

One important consideration for both the lack of interest with regard to changes in unemployment compensation arrangements and the ease with which changes were implemented seems to be the political perception of joblessness and at the time. George (1968) pointed out that unemployment in mid-1966 was no longer regarded as a significant problem. It was thought that full employment existed 'in spite of the prevalence of high unemployment rates in some of the country's regions' (ibid., p. 87). Economic problems however remained and an increased mobility of labour was widely considered as being of 'national

¹ Richard Crossman's (1972) assessment was that 'the short-term benefits were very popular with the economic departments (...) whereas the big scheme was not' (ibid., p. 19).

interest'. Together with earlier legislation, the 1966 changes in income support for the unemployed should be interpreted as having been motivated by intentions to foster economic growth. The acceptance of (temporarily) higher unemployment levels was also semantically facilitated. New phrases were created such as 'manpower policies' and 'redeployment and rationalisation' of labour etc. which should give unemployment, perceived as inevitable, a more 'neutral' and 'less emotional' character (George, *ibid.*). Also, a higher rate of joblessness than in the 1950s and early 1960s was regarded by the government as compatible with the notion of full employment. Accordingly, George regarded the implementation of earnings-related unemployment benefits as 'primarily concerned with industrial growth and secondarily only with the welfare of the unemployed' (*ibid.*, p. 101).

An earnings-related benefit system, by definition, entails the transference of market income differentials into the social security system. This step, deviating from former provisions of short term payments, was deliberate. Better paid workers were given incentives to acquiesce to job changes. Others, such as lower paid employees and those whose work history included interruptions gained only little, if anything, from the new scheme. For those eligible for insurance benefits, the standardisation of the duration of flat-rate benefit was an improvement. However, there are assessments which do not consider the introduction of earnings-related unemployment benefits in 1966 to have been a major policy shift. Micklewright (1989), for example, argued that the legislation in 1966 was a 'less radical departure from previous legislation than is commonly supposed' (*ibid.*, p. 537), since inequalities were already inherent in the pre 1966 system (longer payments for better contributions). The 1966 National Insurance Act, he argued, merely substituted longer periods of flat-rate payments for higher benefits for a standardised period, both of which favour "better" contributors.

However, I would argue that the 1966 Act was a break with the past (despite the graduated pension payments since 1961) in two respects. Firstly, it gave unemployment benefits an economic justification (see Heclo, 1974). Income-related benefits were widely regarded as able to foster job mobility and thus to contribute to higher productivity which was of national interest. Secondly, the step away from providing universal short term benefits was legally fixed, which was a deliberate signal that "better" contributors were favoured by granting them benefits closer to their market incomes. With this move, it can be argued that British social security arrangements for the unemployed adopted, at least in part,

the principle of wage replacement benefits in 1966, which has been traditionally strong in other welfare states, most notably in West Germany (see Chapter 3). I will return to an assessment of the introduction of earnings-related unemployment benefits in Great Britain in a comparative context in the concluding section of this Chapter, after having analysed changes in income support provision for the unemployed in West Germany in the second half of the 1960s.

1.5. Conclusion

Plans for earnings-related benefits had been considered by both major parties long before the 1966 National Insurance Act came into force. The idea to link short term social security payments to former wages was widely regarded as one appropriate arrangement, amongst others, for assisting a 'shake out of labour' in the economy at least from 1963 onwards. Transfers of workers from those industries likely to decline in the future, into expanding economic sectors, were accepted as a necessary condition for increasing productivity and thus to improve Britain's economic performance in the long term. Predictions of rapid advancements in technology and automation as well as forecasts of labour shortages enforced this perception.

Various pieces of legislation were created in response, which would facilitate job mobility and, foremost the Redundancy Payment Act 1964, weaken resistance to redundancies by granting higher compensation to unemployed workers. The conditions for introducing an earnings-related scheme were favourable for the Labour government which came to power in October 1964. Support from the opposition was likely. Preparation was necessary however in order to devise a system acceptable to both unions and employers. Other social security plans announced in the 1964 election manifesto, e.g. the income guarantee, were also intended to be implemented after a general review of the social security system as a whole.

Economic problems were pressing however, and after an increase of social security benefit rates in March 1965 there was little support for increasing public expenditure. Trade figures worsened in April and May 1965 and deflationary measures were announced subsequently in July which entailed cuts in public expenditure. The implementation of long term social security plans had to be further postponed. Earnings-related benefits however were a different matter. Debates in Cabinet and statements in Parliament indicated that these transfer payments were seen as an instrument which could help to promote stable

economic growth. A speedy implementation was perceived as necessary and also feasible since support from opposition parties and from the unions was likely. Also, an introduction would be inexpensive in comparison with other social policy plans. It was believed that the new scheme would be self-financing through higher national insurance rates.

Some criticisms were raised inside and outside Parliament, for instance over the lack of impact the new scheme would have on low income earners and the long-term unemployed. Also administrative questions remained. The government was willing to admit to these difficulties but referred to subsequent amendments and accompanying legislation in order to solve outstanding problems. The new legislation itself, repeatedly characterised as an 'interim measure',¹ was intended to be put into force as soon as possible. This was welcomed by the opposition and the TUC. Together with the hope of future improvements of the scheme, this might explain its general acceptance and only lukewarm critical comments.

Unemployment was low in 1965 and did not rise before mid 1966. It was not regarded as a severe problem and other social groups (old age pensioners, large families) were considered as social security clients needing more immediate help than the jobless. However, new unemployment benefit arrangements were not primarily a social security matter. Indeed, short term wage-related benefits were less directed towards alleviating the situation of the then currently unemployed and aimed more at a future clientele. A rise in the number of people out of work was forecast according to the plans for 'redeployment' of labour outlined above. Better paid workers who had enjoyed relatively stable employment relationships were now expected to join the ranks of the unemployed - at least for a while. Better compensatory provisions had to be provided therefore in order to weaken their resistance to redundancies, which were generally perceived not only as inevitable but also as desirable in order to increase economic growth. The granting of benefit levels which were closer to accustomed incomes than the existing transfer levels for unemployed people seemed an attractive and politically safe idea at the time.

2. The Supplementary Benefit Act 1966 and subsequent changes

¹ Richard Crossman, speaking at Labour's Annual Conference in 1967 admitted that the National Insurance Bill has been 'rushed through' (see also HCD, 13 March 1967, col. 22/23 and HCD, 29 January 1968, col. 862).

In this section I will examine legal developments in Great Britain between 1966 and 1968 which primarily affected assistance rather than insurance benefits for the unemployed. There was a major legislative change in 1966 when the National Assistance Board (see Chapter 3) was abolished and supplementary benefits were introduced. Smaller administrative changes were implemented in the subsequent two years when the level of unemployment was rising and issues of work incentives and social security abuse by unemployed people became more pronounced.

2.1. The Abolition of the National Assistance Board

As indicated above, unemployment levels after 1963 were very low and remained below 2% until 1967. In its 1966 election manifesto, the Labour Party did not regard the achievement of full employment as a major difficulty because the 'problem today and in the future is not the general unemployment of the inter-war years but the redundancy that is due both to decline in demand for products of an industry and to the development of new labour-saving methods of production' (Labour Party Manifesto, 1966, p. 276). Those who would be exposed to economic reorganisation would be protected by a reconstructed social security system (see above). Plans (such as a national superannuation scheme or the income guarantee programme) were 'well advanced' when Labour took office in 1964, it was argued, but had to be postponed due to economic constraints. Now the time had come for a 'radical reconstruction' which would start with the establishment of a Ministry of Social Security and the preparation and implementation of a new national pension scheme (see Crossman, 1972).

The extent of poverty, especially amongst the elderly, began to be recognised more during the 1960s, not least due to pressure from outside Parliament. In 1965 the Child Poverty Action Group (CPAG) was founded (see Banting, 1979; McCarthy, 1986). Its aim was to highlight the increase of poverty in Britain and to mobilise the media and lobby MPs to put pressure on the government in order to alleviate the situation. In (often personal) alliance with academics, who had started to study the scope and causes of poverty from the late 1950s and early 1960s onwards (see for instance Abel-Smith and Townsend, 1965), the group pressed for higher family allowances, the introduction of an income guarantee and the abolition of the 'wage-stop' rule (see below). In the mid 1960s its influence on the government was not insubstantial due to relatively close contacts with individual Labour MPs and Ministers (such as Margaret Herbison and Richard Crossman).

One of Labour's social security objectives since the mid 1950s had been the abolition of the National Assistance Board. Benefit levels were judged as inadequate and the provision of means-tested payments was regarded as a major cause of poverty amongst the elderly who, although eligible for benefits, often failed to apply for support due to the stigma attached to National Assistance. There was less concern for other groups (the unemployed, sick, etc.) failing to claim benefits. The role of National Assistance had not declined, as it had been envisaged by Beveridge, but rather increased. Its intended character, granting transitional subsistence benefits in short and exceptional periods of need, had gradually changed towards that of a long term safety net for millions of claimants. In 1963 for instance 1.9 million weekly payments were made, taking account of the needs of 2.9 million people including dependants (NAB, 1964, p. 10).

With the elderly as the target group, Labour decided in 1966 to abolish the National Assistance scheme. But a new pension system planned in the early 1960s was not regarded as feasible in 1966 (Webb, 1974) due to a changed economic context (see above). With reference to the ongoing social security review, the national superannuation scheme and the income guarantee was postponed until an unspecified future date. According to Richard Crossman, 'we had to think up a substitute for the income guarantee. We had fortunately promised to integrate National Assistance in the Ministry of Social Security, so we invented the Supplementary Benefit Commission to replace the National Assistance Board' (1972, p. 18, see also Wilson, 1974, p. 281).

At the second reading of the Supplementary Benefit Bill¹ in May 1966 Margaret Herbison announced the introduction of the Supplementary Benefit Commission (SBC) which should have a 'directing' and 'adjudicating' function within the new Ministry of Social Security, which was replacing the Ministry of Pension and National Insurance and the National Assistance Board. The new Ministry would co-ordinate the formerly separate administration of contributory and non-contributory benefits and supervise policies for all social security payments. The SBC, to be comprised of independent people, was meant to be 'a power house of ideas' and 'source of advice to the Minister' (HCD, 24 May 1966, col. 340) and to administer the new assistance payments, named supplementary benefits. However, the principle of the new system remained in line with the old legislation from 1948. Supplementary benefits were still means-

¹ Or Ministry of Social Security Bill as it was known at the time.

tested and to be calculated on a household basis. Only the husband could claim the benefit, on behalf of him and his wife and children.

A new feature (perhaps as a cheaper substitute for the income guarantee) was the introduction of a long term addition for people over pensionable age and all others who had been in continuous receipt of an assistance payment for at least two years. The rationale behind this reform was to remove previous detailed enquiries into people's entitlement to grants for 'special needs over and above basic requirements' and therefore to reduce the scope of discretion (see Ministry of Social Security, 1967b, p. 55). This was meant to be an improvement in two respects. It would decrease the stigma attached to supplementary benefits, especially with regard to elderly people, and secondly it would reduce the administrative workload since most of the claimants receiving supplementary benefits qualified for long term additions (*ibid.*, p. 55). Unemployment claimants however remained ineligible for the long term addition even if they had been in receipt of assistance benefits for two years or longer.

It is not entirely clear on which grounds the unemployed were excluded. While their share of National Assistance claimants had been small and even declined between 1962 (10%) and 1965 (5%) (see NAB, 1963 and 1965), more than a third of all registered unemployed were in receipt of National Assistance in 1964 and in 1965 (see Social Security Statistics, 1974) and between a fourth and a fifth of all unemployed relied on National Assistance alone. The government's decision to regard the needs of unemployed people as less deserving might have been influenced by the decline in the number of long-term unemployed (out of work for more than a year) which, as a percentage of all unemployed, decreased from 19% in 1964 to 13% in 1966.¹ However, neither the debate in the House of Commons nor official publications give any indication as to why discrimination against the unemployed was perceived as necessary. Of course, it might have simply been administrative considerations which made it desirable to exclude unemployed claimants from an increase of benefits after two years. The existence of the 'wage stop' rule, which restricted the level of benefits to below former earnings (see below), would have ruled out the long term addition for a large part of the unemployed. This regulation was legally fixed in 1966 and the government seemed eager not to create work disincentives by reducing too far the differentials between earnings and welfare benefits. On the other hand, the large majority of long-term unemployed were, according to a Departmental Report for 1965, not 'workshy or layabouts on the welfare state' (NAB, 1966,

¹ Calculations based on British Labour Statistics, 1971, p. 362, table 175.

p. vii). However, social security changes in 1966 reinforced the traditional notion of unemployed claimants as 'less deserving' than other social security recipients.

Overall, the Supplementary Benefit Bill was, with 'provisions and reservations' (HCD, 24 May 1966, col. 383) welcomed by the opposition who emphasised the need for selective social security measures in order to encourage 'self reliance and vigour' (ibid.) with regard to the economic situation at the time. The Bill did not arise from, or lead to, a 'wide public debate' (Walker, 1983, p. 100). This could have been due to its closed process of preparation. A complementary explanation could be the comparatively few and insignificant changes which the new, only residual, scheme eventually implemented. As Richard Crossman recalled in June 1966, 'even our big social security measures are disappointing. All we have got is Peggy Herbison's little social security Bill, by which we change the name of the National Assistance Board and don't do much more' (Crossman, 1975, p. 533).

2.2. Amendments to the 'wage stop' rule

Under Section 5, Schedule 2, a regulation known as the wage stop rule was transferred from the National Assistance (Determination of Needs) Regulation 1948 and consolidated in the Supplementary Benefits Act 1966. According to this rule the National Assistance Board, and its successor the Supplementary Benefits Commission, was required, 'unless there are exceptional circumstances', to restrict the amount of supplementary benefit payable to an unemployed person to a level, so that 'his total income when unemployed is not greater than it would be if he were in full-time employment' (Ministry of Social Security, 1967b, p. 60).

The rule affected between 10% and 14% of all individual claimants in receipt of national assistance between 1962 and 1965 (and a much larger proportion of all families dependent on unemployment assistance benefits, see NAB, 1963, 1964, 1965). The application of the rule left considerable room for discretionary decisions. Deductions from standard benefit payments were dependent on what local officers regarded as 'exceptional circumstances', 'normal weekly earnings' and 'occupation'. The regulation caused frequent questions in the House of Commons from MPs who were worried about its effect on large families where the main wage earner had been on a low income before becoming unemployed.

The wage stop rule became one of CPAG's key issues in their campaign against family poverty. The group claimed that discretionary elements were often

interpreted unfavourably against claimants by not taking into account actual former earnings (e.g. not considering overtime pay) and applying wage rates out of date at the time of the calculation of deductions. The SBC was also attacked for not providing information to claimants if, on which grounds, and by how much their benefits had been reduced (see for instance *Poverty*, 3, 1967 and 4, 1967). Tony Lynes, who had been appointed as CPAG's secretary in 1966, argued that guidelines should be made public in order to prove that the introduction of the SBC meant a true abolition of the NAB and to indicate the new emphasis of granting supplementary benefits as of right (see *Poverty*, 4, 1967)

CPAG's ultimate aim to abolish the rule completely gained support at Labour's Annual Conference in 1967. There it was argued that the wage stop regulation should at least be suspended in areas of high unemployment such as Scotland because of a lack of available jobs for labourers. The pledge however went further to demand a complete abandonment of the rule and individual delegates announced a 'mighty guerilla war' against the SBC in case this was not achieved (Labour Party, 1967, p. 288). Richard Crossman however, speaking at the same conference, defended the regulation. Shifting the responsibility for the problem and its resolution to the economic system, he argued that it was not the rule but low earnings which were the actual crux of the problem of family poverty (Labour Party, *ibid.*, p. 288). Similar arguments against the abolition of the wage stop had been given by the government at various times in the past (see for instance HCD, 24 May 1965, col. 149 and 21 November 1966, col. 736).

Apparently, the government's answer to the problem of preserving work incentives for those whose earnings were below the supplementary benefit line was to reduce benefits rather than to increase in-work benefits such as family allowances. An uprating of this benefit type was implemented in 1967 but the increase was less than Margaret Herbison had demanded after she had given up the idea of introducing an income guarantee. Again, her stance in Cabinet seemed isolated and, more importantly, in opposition to the Treasury. It has been argued that this further defeat contributed to her decision to resign as Minister of Social Security in July 1967 (see McCarthy, 1986, pp. 49).

A rise in unemployment in the second half of 1966 and 1967 in addition to the increase in supplementary benefit rates, which came into effect in November 1966, led to a greater number of people being affected by the wage stop. At the end of 1966 the rule applied to 25,000 claimants (see Ministry of Social

Security, 1967b, p. 61). This led to growing pressure for a policy change inside and outside of Parliament which was enforced in the autumn of 1967 after the publication of a report by the Ministry of Social Security (ibid., 1967a). The report was based on a survey from 1966 which aimed to explore the extent of family poverty. It found that 160,000 families were living on incomes below the National Assistance level, mostly because fathers, although in full time work, had low incomes, were out of work but not claiming support or receiving benefits at a reduced rate because of the wage stop.

Growing criticism of the wage stop rule apparently prompted a response by the government and Judith Hart, the new Minister for Social Security, announced that her Ministry and the SBC were involved in a survey, examining the administration of 52 wage-stopped families. The apparent intention to soften the impact of the rule was implied by Alan Beard, Under-Secretary to the Supplementary Benefit Department, who, according to a report in *The Times* (7 November 1967), admitted that many criticisms made against its administration were valid. After the publication of the SBC's report,¹ new rules were announced in Parliament. The main changes introduced affected the calculation of relevant earnings of labourers and light labourers which in the future would be at least equal to wage levels for manual workers determined by the National Joint Council for Local Authorities. Discussions with claimants would take place in every case in which a wage stop deduction was considered and a review would be undertaken of all wage-stopped cases where there was an element of disability.

Assessing the changes in detail, Tony Lynes welcomed particularly the decision to apply local authority wage rates as a 'more realistic figure' for the calculation of relevant weekly earnings (*New Society*, 14 December 1967). In a leading article, *The Times* also welcomed the wage stop changes. Softening its effect was an appropriate decision at a time of rising unemployment. Its abolition would have been inappropriate, it was argued, because the underlying principle was justified. The problem of family poverty was not the application of the wage stop but the existence of low wages, 'campaigning against the wage stop itself is therefore to fight the wrong battle in the right war' (*The Times*, 5 December 1967).

In April 1968 Judith Hart claimed that due to the changes made, 14,000 claimants benefited from the reformed wage stop. The campaign for its complete abolition continued however, led foremost by the CPAG, but TUC members

¹ Ministry of Social Security, 1967c.

also supported the movement (see TUC, 1967, p. 474). At Labour's Annual Conference in 1968 a resolution to abolish the wage stop was put forward which was carried against 'the platform' (Labour Party, 1968, p. 307). Although that time nobody referred to the economic system as a 'scapegoat', the resolution was supported neither by the Social Policy Advisory Committee nor the Home Policy Sub-Committee and thus no commitment was made to it in later documents (see Minkin, 1978, p. 340). CPAG's campaign went on however (see Lister, 1972; Elks, 1974) but it took until July 1975 before the rule was finally abolished.¹

2.3. Rising unemployment, three 'waiting days' and the 'four week' rule

As outlined earlier in this chapter, after a period of monetary speculation and a weakening of sterling, a deflationary package came into force in July 1966. Cuts in public expenditure, increases in indirect taxation and a six month standstill of incomes and prices with a subsequent period of another six months of 'severe restraints' were announced to which both the TUC and the CBI reluctantly acquiesced. Unemployment had increased to 320,000 in August 1966 and the government expected a further rise to around 500,000 (or 2%) by the end of the year (see *The Times*, 23 September 1966). A temporary rate between 1.5% and 2% was described by Harold Wilson as 'not unacceptable' (HCD, 20 July 1966). Rising unemployment was apparently regarded not only as inevitable but also as desirable as long as it was of a temporary nature and its incidence could be 'fairly and evenly' spread over the regions (Crossman in *The Times*, 16 September 1966).

Early in 1967 the economic situation improved slowly and official forecasts became more confident. The trade gap stayed small and an annual growth rate of 3% between 1967 and 1970 was predicted. From May onwards however the confidence in sterling weakened again after a worsening of export figures. 'External influences' such as the Suez crisis and a refusal of European countries to let Great Britain join the Common Market under the present exchange rate aggravated the situation (see Stewart, 1977, p. 82). However a further deflationary measure was not regarded as appropriate by many commentators. The National Institute Economic Review (cited in Blackaby, 1978, p. 40) warned that a further depression of demand should be ruled out otherwise a 'first major postwar recession' was possible. Rising unemployment had begun to be a cause for political concern. In a speech in early October 1967 Sir Leslie O'Brien, the Governor of the Bank of England demanded a 'larger margin of unused

¹ See Chapter 6.

capacity', i.e. of manpower and other resources, in the economy (see *The Times*, 13 November 1967). Labour backbenchers protested when his views were not repudiated by the government but implicitly supported by Harold Wilson who emphasised the 'transitional nature of unemployment' (see *The Times*, 16 November 1967). In a public motion, 36 Labour backbenchers condemned the government's economic policy for retreating from its election manifesto and from the party's priority for pursuing full employment.

In November 1967 the preoccupation for keeping the exchange rate of sterling stable was finally abolished with a devaluation of the pound, accompanied by cuts in public spending, a rise of the Bank Rate and other measures (see Keegan and Penhant-Rea, 1979, ch.7; Stewart, 1977, p. 88). A Cabinet meeting in January 1968 resulted in further reductions of public expenditure including social policy programmes. However, speculative runs on sterling did not cease and the positive effects of the devaluation did not materialise immediately (in fact not until early 1969, see Blackaby, 1978, p. 43). As a response, the 1968 budget became the 'most formidable deflationary budget since the war' (Blackaby, *ibid.*, p. 46). Amongst other measures the new Chancellor of the Exchequer, Roy Jenkins, announced a new phase of incomes policy.

Among other plans, the Chancellor intended to discontinue the payment for the first three days of insurance benefits in case of unemployment, sickness or injury. The arrangement since 1946 had been to grant benefits for the three 'waiting days' retrospectively as long as the individual period out of work lasted for more than two weeks. While the announcement did not have any immediate effect, Judith Hart was soon put under pressure by Labour backbenchers and also by the Conservative Party's social security group, who both condemned the proposal put forward as Clause Two in the Family Allowances and National Insurance (No.2) Bill. The Minister claimed that the decision was made in accordance with a judgement of priorities in the context of the budget and necessary cuts in public expenditure.

During the second reading of the Bill, Clause Two was opposed by both Conservative and Labour MPs. The opposition announced that it would vote against the proposal on the grounds that the sick would suffer most unless occupational sick pay was provided which would act as an additional burden on employers. It was also emphasised that the clause would result in the first cut in unemployment and sickness benefit since 1931 (see HCD, 2 April 1968). Some Labour MP's simply demanded the deletion of the clause (Stanley Orme, *ibid.*, col. 260) and others its suspension until the long term restructuring of the social

security system was implemented. The concerted pressure inside but also outside of Parliament proved to be successful. After talks with employers and the TUC Judith Hart announced that the government would not proceed with the clause (see *The Times*, 17 May 1968). Eventually the clause which would have affected claimants of insurance benefits was dropped. During the same speech however the Minister expressed concern about a growing 'abuse' of the supplementary benefit system by 'a minority' of mainly young unemployed claimants. Two weeks later she announced new control procedures to 'check voluntary unemployment' (HCD, 25 July 1968, col. 213/14).

Recipients of unemployment assistance were less 'fortunate'. In a speech in Lancashire in May 1968 Judith Hart announced her intention of introducing new measures aimed at preventing growing 'abuse' of the social services. The problem, she argued, was that public confidence in the whole social security system was put in jeopardy by a minority of mainly young people who deliberately remained unemployed and drew supplementary benefits. The new procedures would assist local officers in their work because it was 'awfully difficult to distinguish between the man who is not really looking for a job and the man who is looking and cannot find one' (see *The Times*, 12 May 1968). After recurrent reports in the press about 'workshy' young people and several requests in Parliament from the Opposition to tighten control procedures she eventually announced the new regulations on the 25 July 1968. New control procedures would apply to:

- single, fit and unskilled unemployed men below the age of 45 who would be told at the outset of their claim for supplementary allowances that they should be able to find work within four weeks and that after that period their benefit would be stopped;

- all other claimants under the age of 45, whose claims were to be reviewed after three months which included interviews to find out 'what was causing the prolonged unemployment, and a full and frank discussion of any difficulties' (DHSS, 1969, p. 252). If 'suitable work' was available and there were no dependants who might suffer, the four week limitation of the benefit was applied too.

The four week rule, as it became known later, was not a rule in the legal sense but an instruction to SBC local officers to use their discretion. More information about its application became available only through answers to Parliamentary questions and the publication of the Supplementary Handbook in 1970, in which it was stated that the rule did not apply to Scotland, the Northern Region of

England and most of Wales. However, the rule also affected men between 45 and 60 years old and those not fully fit who were given six months before their benefit was curtailed. Men over 60 were granted up to a year.

The CPAG (see *Poverty*, 9, 1968 and 15, 1970) as well as individuals (see Meacher in *New Statesman*, 22 January 1971 and Lynes in *New Society*, 20 January 1972) criticised the SBC in terms of both the application of the rule and its rationale at a time of rising unemployment.¹ In some areas where the rule was in force only a few vacancies for unskilled labourers were available.² It was also argued that the SBC lacked knowledge whether claimants whose benefit was stopped after four weeks had found employment or failed to claim for other reasons. According to Lynes (*New Society*, 20 January 1972) it could be assumed that most of the claimants were not aware of the possibility of reclaiming benefit and appealing to a tribunal after a negative decision by the SBC. A large number of claimants thought they were already classified as 'workshy' when they were given only a limited duration of their initial claims. In fact between September 1968 and December 1970, 176,096 claims were restricted at the outset while 12,117 claimants had their allowances stopped after three months. Only 1.1% of all unemployed appealed to tribunals (see *Poverty*, 20/21, 1971, p. 7).

One of the reasons stated by the government for introducing new sanctions against the allegedly 'workshy' in summer of 1968 was the lack of appropriate control mechanisms against abuse. But the extent of 'workshyness' amongst (long term) unemployed claimants had been studied before and was found to be limited. Field and Grieve (1971) listed surveys conducted by both the NAB (see Annual Reports for 1951, 1956, 1958 and 1960) and the Ministry of Labour (see Ministry of Labour Gazette, April 1962 and April 1966) which showed that only a minority of claimants could be classified as 'possibly workshy' (between 5 and 10%) and the majority of those proved to have mental or physical disabilities. Secondly, the NAB already had, and the SBC continued to have, a series of measures to control and sanction men who were assumed to remain unemployed voluntarily. These included interviews with officers, who specialised in 'employment problem cases' (NAB, 1965, p. 41), special medical examinations or simply the refusal of 'benefits if a specific job is known to be available to the

¹ See the replies given by Judith Hart in *New Statesman* (29 January 1971) and Lord Collison, then chairman of the SBC, in *New Society* (10 February 1972).

² Hill (1974) claimed that in Hammersmith, where the rule was in force because it was not regarded as an area of high unemployment, the employment exchange recorded that the ratio of unfilled vacancies to unemployed labourers had never been better than 1 to 35 between 1968 and 1971 and for light labourers the ratio was only 1 to 155 during the same period.

man' (ibid.). Other options included the direction of unemployed men to 're-establishment' centres in order to reintroduce them 'to the habits, routine and demands of a normal working life' (ibid., p. 43). Finally, men could be prosecuted in case they 'had persistently refused or neglected to maintain themselves and their family by working' (ibid., p. 42). Lynes (in *New Society*, 20 January 1972) pointed out that under the Supplementary Benefit Act 1966, Section 12 and 30, these sanctions continued to be applicable and were used against a very small number of claimants for supplementary benefits. Recipients of unemployment insurance benefits in contrast could only be refused their payment for six weeks in case of 'voluntary unemployment'.

The Minister of Social Security referred to growing public concern over the 'abuse' of the social security system. Being aware that only a minority of the unemployed made illicit claims she blamed the press for inflating these cases in such a way as to suggest a widespread nature of the problem (see HCD, 12 July 1968, col. 931). Thus new control mechanisms were introduced to help officers distinguish better between those who were 'genuinely seeking work' and others drawing benefit without intending to find employment. The impact of the press and television on the introduction of the new regulation in 1968 was widely recognised by critics (see Field and Grieve, 1971, p. 6; Bugler in *New Society*, 8 August 1968; Meacher, 1974, p. 40). Meacher (in *New Statesman*, 22 January 1971) suggested that the government might have been 'pushed into a public relations exercise, at a time when its popularity was particularly vulnerable, to appease the mounting press clamour by showing its toughness'...(ibid., p. 105). Similarly, Hill (1972) asked whether the Labour government 'allowed themselves' to be swayed by a 'hysterical campaign' on widespread abuse of benefits by unemployed men. It 'became convenient', he argued, to explain the failure to maintain low unemployment levels 'in term of the unwillingness of men to work rather than in terms of either a failure of economic policy or a failure to train and equip low skilled and low paid workers to compete in the labour market' (ibid., p. 239).

However, other points have to be considered. At a time of severe restrictions on wages, due to the continuous incomes and prices policy and improvements of benefit standards, the gap between average market incomes and social security benefits had narrowed. Judith Hart herself referred to the 'overtaking' of wages of 'our low paid workers' by social security benefits as a 'serious problem' (see *The Times*, 10 September 1968). In fact, whereas average net incomes for male manual workers increased by 21% for single people (20% for a married couple

without children) between 1964 and 1968, recipients of unemployment benefits (including ERS) improved their relative income situation, expressed as a share of average net incomes of male manual workers, from 24% to 53% (and from 37% to 66% for a married couple).¹ The standard rate for both single and married people receiving supplementary allowances rose by 43% during the same period. Thus public resentment against the 'workshy' might not have been merely directed by a media campaign but also based on rational observations.²

The pecuniary loss of public resources through fraudulent claims by unemployed people was small, especially when compared to various forms of tax evasion and avoidance. But the savings might have been intended to have a symbolic impact by creating the impression of focussing on those who live 'off the welfare state' at a time of severe cuts in public expenditure. When everybody else was required to acquiesce in wage restraints it might have seemed inadequate to leave out the allegedly workshy. Also attacks on the latter might have been considered instrumental in order to fend off pressure for, politically more damaging, cuts in other parts of the social security scheme.

2.4. Conclusion

Policy makers had become more aware of poverty as a social problem during the 1960s. Low wages, large families and inadequate pensions were primarily regarded as sources for insufficient household incomes rather than unemployment. Between 1964 and 1966 registered unemployment was relatively low with rates below 2%. The number and proportion of long-term unemployed was declining. In 1964, 18.8% of all registered unemployed (12.9% in 1966) were out of work for more than one year.³ Against this background both the general acceptance of the Supplementary Benefit Bill 1966 and the exclusion of the long-term unemployed from entitlement to the long term addition might be less surprising. The government did not even feel it necessary to justify this omission during the second reading of the Bill and criticism by the Opposition concentrated on other groups, such as the disabled, who were not catered for in the new scheme. The discrimination against the long-term unemployed was not an issue.

¹ Calculations based on Social Security Statistics, 1972, table 46.5, p. 193.

² The correlation between growing public concern in cases of 'abuse' of the social security system by unemployed people and relatively stagnating wage levels at a time of rising unemployment reoccurred in the mid 1970s and I will return to this point in the next Chapter.

³ Calculations based on British Labour Statistics, Historical Abstract, 1971, p. 362.

From mid 1966 onwards unemployment started to rise. This, and increases of supplementary benefit scales resulted in a higher number of unemployed claimants being affected by the wage stop rule which had been a cause of concern since its introduction in the 1940s. Critical Parliamentary questions became more frequent as well as complaints from outside of Parliament. The abolition of the rule was proposed by the CPAG and individual members of the TUC and the Labour Party while the Conservative opposition and (at least) part of the public were in favour of an amendment. A preservation of the rule was apparently regarded as necessary to keep assistance benefit levels below existing wage rates and thus to secure 'work incentives'. The government's decision not to introduce the pledged income guarantee or higher family allowances (which might have been a basis for the suspension or the abolition of the wage stop rule) intensified the perceived need to keep it in its place. Thus, instead of its abolition, the rule was 'softened' through improvements introduced in its administration in early 1968. While this favoured some claimants, the principle of 'less eligibility' remained in place and affected mainly workers and their families in particular areas (especially in Northern regions) who had been in low paid jobs before becoming unemployed.

Growing economic problems contributed to a worsening situation especially for single unemployed claimants of supplementary benefit in areas regarded as offering good job prospects. Recurrent deflationary policy packages from 1966 led to higher levels of unemployment which was an undeclared but implicitly intended outcome of the government's economic policy. The problem was that 'higher margins' of 'temporary unemployment' coincided with relatively stagnant wage rates and increasing social security benefit levels. This mixture seems to have generated growing resentment against allegedly 'workshy' supplementary benefits claimants. The ease with which harsher sanctions against unemployed drawing means-tested assistance benefits were introduced indicated their relatively weak position. For the government, it was politically convenient to react to public pressure with the introduction of the four week rule (singling out especially younger and male claimants of assistance benefits) despite a lack of evidence for widespread benefit abuse. Protests by people affected by the rule, expressed mainly by, or with support of, the CPAG, were limited. Other potential pressure (TUC, Labour Party Conference, etc.) which could have been politically damaging was absent.

By contrast, the unsuccessful attempt by the government to restrain insurance benefits for the first three 'waiting days' exemplified the better support and

relative strength claimants enjoyed as long as they remained within the area of social insurance. As outlined in the first part of the chapter, higher unemployment levels, perceived positively in the mid 1960s in order to facilitate economic restructuring and to increase productivity, were expected to affect better paid workers. The impact of joblessness for workers with long and stable work records was softened through improved benefit compensation in 1966. The acquiescence to 'temporary unemployment' was rewarded with the topping up of flat-rate benefits for some workers. By contrast, only two years later the government felt that unskilled, and therefore mainly low paid, unemployed workers would have to be controlled more strictly and subjected to tougher sanctions because of an increase in alleged 'voluntary' unemployment.

Thus, policy changes between 1966 and 1968 in Great Britain seemed to have had two different characters. As long as people were entitled to insurance benefits, they were regarded as deserving improved financial support. In contrast, those outside the protection of the state insurance scheme and drawing supplementary allowances had to be scrutinised more closely through the introduction of harsher penalties against 'workshyness'. The result was a reinforcement of the demarcation between 'deserving' and allegedly 'undeserving' unemployed benefit claimants. In sum, it can be argued that policy changes in the second half of the 1960s widened the institutional division of unemployment compensation in insurance and assistance. The provision of benefits for contributors within the insurance scheme was improved while the position for those who had to resort to assistance benefits worsened. This interpretation would suggest a move towards the German scheme where the separation between 'superior' workers' social security and 'inferior' poverty alleviation arrangements has traditionally been more pronounced (see Chapter 3). I will come back to these considerations in the context of the comparative discussion in the final section of this chapter.

West Germany

As outlined in Chapter 4, the *Arbeitsförderungsgesetz* (AFG - Labour Promotion Act) is the legal framework in the Federal Republic of Germany¹ upon which the current regulations for both public labour market policies and

¹ And since October 3rd 1990 also in the part of the Federal Republic of Germany which used to be the GDR.

also the main income support schemes for unemployed people are based. It was implemented in 1969 and marked, at least programmatically, the beginning of a 'new concept' of labour market policy in West Germany (Lampert, 1989, p. 175). Its objective was to put more emphasis on 'active' instruments, thus preventing unemployment, through the improvements of programmes such as vocational guidance, training and retraining, and job protection and job creation schemes. Unemployment compensation arrangements were also altered as part of the new legislation in 1969 but changes were given subordinate priority in 1969. However, two years earlier, unemployment insurance benefits became more generous as a response to sharp and unexpectedly increasing unemployment levels.

The AFG was a major but only one of a number of legislative changes in the late 1960s and early 1970s which reflected a departure from a former neo-liberal economic policy doctrine under successive conservative-led governments which had been in power continuously since World War II. In order to understand changes to income support schemes enacted in the 1960s I will first describe the context in which the AFG was formulated by briefly reflecting on major economic, ideological and political developments in West Germany since the 1950s. Secondly I will analyse why income provision for unemployed people was improved in 1967 before I consider legislative changes leading up to the introduction of the AFG in 1969. Major features of the new Act and controversies in connection with it will be highlighted, which, in the final part, will serve as the background for a discussion of those sections of the AFG which altered unemployment compensation provisions.

1. The disintegration of neo-liberalism

Applying conventional indicators, the economic development of West Germany from its foundation in 1949 to the time of the first major recession in 1966/67 was a gradual but steady success. After the end of the war, the influx of workers from the East caused problems of integration into the labour-market and unemployment was as high as 1.9 million (11%) in 1950. However, the number of employees rose considerably from 13.6 million in 1949 to 18.6 million in 1956 and there was a slow but continuous decline of the number of people out of work. In 1960 the unemployment rate was below 2% for the first time and remained below 1% until 1967, which is below an average annual number of 200,000 people (Adamy and Reidegeld, 1988, p. 87).

Two small economic slumps in 1952 and 1956 were quickly overcome. The average rate of real economic growth was 6.7% between 1950 and 1956 (Lampert, 1989, p. 173) and there was price stability with inflation rates below 3% between 1958 and 1969, except for 1965 and 1966 with 3.3% and 3.5% respectively. Economically West Germany became gradually integrated into the world economy and its success was mainly due to a strong export industry. In the early 1960s however there were first signs of potential problems. Annual economic growth rates were still high but more fluctuating and comparatively lower than in the 1950s. With the development of new technology, reinvestments in the late 1950s and early 1960s were increasingly made in automation and rationalisation of production processes. Dominant methods of production shifted gradually from a capital extensive use to a capital intensive one. As a result, new occupations emerged while other parts of industry declined. The mining industry provides an illustration where in 1958 almost 700,000 people were employed. By 1966 the number had declined to less than 500,000 due to rationalisation and the increased use of new forms of energy (Böhme, 1977, p. 281).

While there had been a sufficient supply of qualified and mobile workers from the GDR, this came to a sudden halt in 1961 after the erection of the Wall. Labour demand was still rising however and in 1960, for the first time after World War II, there were more job vacancies than job seekers. Although German labour supply was decreasing between 1960 and 1966, employment was still growing but to a smaller extent (Abelshauser, 1983, p. 99). The increase could only be sustained by a heavier recruitment of *Gastarbeiter* (foreign workers) whose total number rose from 279,000 in 1960 to 1.244 million in 1966 (Seifert, 1984, p. 12). The replacement of German workers by foreign ones was only partly successful in economic terms however because *Gastarbeiter* were employed mainly for unskilled or semi-skilled work. Their jobs involved no, or hardly any, language abilities, could be learned quickly and were of a repetitive and routine character. At the same time there was a growing demand for qualified workers. On a company level firms tried to overcome this problem by internal training and retraining, but it soon became obvious that this strategy was neither sufficient nor favourable as far as the overall economy was concerned. While job flexibility and mobility was required, individual companies tended to hoard skilled labour. Thus from the early 1960s onwards there were growing demands made on the government to increase intervention in the labour market and the economy in general. As in Great Britain at the same time, the

need for more public economic and manpower planning became more pronounced and widely accepted.

This demand was met only reluctantly at first. As outlined in Chapter 3, between 1949 and 1966, the CDU had been continuously in power either with an overall majority or as the largest partner in coalition governments mainly with the Liberal FDP. Economic policies of both the CDU and FDP had been dominated by neoliberal doctrines.¹ State intervention into markets was perceived as inefficient and wasteful. Konrad Adenauer as Chancellor and also Ludwig Erhard as Minister of Economic Affairs, and subsequently as Chancellor up to 1966, regarded the free interaction of interests on markets as the major cause of economic success in the 1950s, with the state intervening only to ensure a competitive market economy. Anticyclical economic management based on Keynesian ideas was not perceived as appropriate or even necessary until the 1960s. Economic growth allowed the extension of existing welfare state programmes along traditional lines as a secondary system of income maintenance. This model became known as *soziale Marktwirtschaft* (social market economy).

The CDU's emphasis on economic restructuring became already obvious in Konrad Adenauer's famous statement in 1949 when he declared that 'the best social policy is a sound economic policy'. Against the SPD opposition, who, influenced by Beveridge's plans (see Chapter 3), favoured the introduction of a comprehensive and universal social insurance scheme, the CDU gradually reinstated the traditionally fragmented social insurance system with equal parity between unions and employers on supervisory boards (see Hockerts, 1983). As indicated earlier, this led to the reinstatement of the division between blue collar and white collar pension schemes, a health insurance system split into a large number of schemes and the reintroduction of the dominant status and earnings maintenance principle in social insurance benefits. Continuous economic growth and a heavy defeat in 1957, when the CDU won an absolute majority in the general election, finally initiated a programmatic shift within the SPD with regard to the party's social policy plans. The idea to introduce a more universal and egalitarian social security system was dropped and the SPD accepted the reinstatement of traditional social security schemes and principles (see Michalsky, 1985). This shift in policies was one of the factors which facilitated a collaboration between the two largest parties in West Germany in 1966.

¹ For convenience I refer to a CDU/FDP Government, although it has to be noted that this includes the CSU as the CDU's sister party in Bavaria.

Another element which led to the breakdown of the CDU/FDP coalition and its replacement by the 'Grand Coalition' between the CDU and the SPD in the second half of 1966 was the growing strength of extremist right-wing parties.

As indicated above, attitudes towards economic policy making changed in the 1960s. Economic growth rates were lower than in the previous decade and structural changes became evident. Gradually the system of free interactions of pluralistic, and antagonistic, interests on markets was seen as hindering economic progress. Industry demanded more state intervention into production in order to sustain economic growth and profitability. Independent economic commentators, foremost the 'Council of Experts',¹ reinforced these demands, predicting a need for policies which would ensure a sufficient supply of qualified and occupationally and regionally mobile workers (Böhme, 1977, p. 282; Schlüter, 1984, p. 98). But there were also external factors influencing the gradual move to a more direct political involvement in the labour market. Countries such as Sweden but also the USA were held up by the 'Council of Experts' as examples of the successful adoption of public employment policies. The promotion of employment programmes had been advocated perhaps most prominently by the OECD in 1964, but also by the ILO, urging its members to implement more preventative measures in order to avoid unemployment due to structural changes in production methods (see Kühl, 1982, p. 252).

As in Great Britain, some steps were undertaken which led to a more corporatist approach to economic policy-making bringing together the government and both sides of industry. However, while the idea of more directive policy programmes gained ideological ground and preparatory discussions with the unions and employer organisations began in 1964, the first legislative change was only introduced in 1967. This was due to reservations within the, by then, ruling CDU/FDP coalition to abandon the existent policy course for ideological reasons, reinforced by two years of a continuous upturn of the economy in 1964 and 1965. Eventually, in the first half of 1966, two proposals were put before the *Bundestag* (Parliament). The CDU/CSU faction suggested the adaptation of the existing labour market legislation (AVAVG) in line with 'technological progress and economic development' (BT-Drs, 1966a). It was envisaged that this would prevent 'undesired social consequences' due to 'technological and structural changes' by adopting more direct employment and vocational policies and by promoting research into labour-market developments.

¹ The 'Council of Experts' (*Sachverständigenrat*) was set up as an independent body of economic experts by the government in 1963. Its task is to analyse the economic development annually and to make policy recommendations.

The general idea was to emphasise a preventative approach to the problem of unemployment, although benefit improvements were also planned. Similarly the SPD opposition introduced a Bill concerning the 'adjustment in the labour market in line with developments in the economy and technology' (BT-Drs, 1966b). Unlike the CDU, the SPD did not intend a reform of the AVAVG but the replacement of it with new legislation. The main aims were to encourage research in labour market problems and to increase opportunities for vocational training. It would be made compulsory for employers to indicate in advance major company reconstructions which could lead to redundancies. However, neither a reform nor a replacement of the existing AVAVG was implemented in 1966. The preparation of legislation was interrupted by an unexpected increase in unemployment in 1966 which led to changes in unemployment compensation arrangements.

2. The hastened amendment of unemployment benefits¹

By the end of 1966 the unemployment insurance fund had accumulated very high reserves of 7.4 billion DM after a steady increase from one billion DM in 1950. Between 1952 and 1966 there had been only three years with small deficits while for the rest of the time annual receipts had always been higher than expenditure. On the one hand this was due to the decrease of unemployment, reducing payments of *Arbeitslosengeld* which had been the main expenditure item up to 1961 (see *Monatsberichte*, 1967, p. 24). On the other hand the rise of the total number of employed persons and of average wages resulted in increased revenues from contributions paid into the unemployment insurance fund despite the fact that the upper earnings limit for contributions had not been increased between 1957 and 1966.² The financial situation allowed the *Bundesanstalt* to repeatedly lower contribution rates from 6.5% before 1949 to 2% in 1957. In 1961 the government was given the right even to suspend the contribution rate in accordance with economic policy expediency. Subsequently between August 1961 and March 1962 there were no contributions to be paid and in April 1962 the rate was fixed at 1.4%, in 1964 at 1.3%.

¹ I would like to thank Günther Schmid (Science Centre Berlin) who kindly let me have access to material (minutes of Committee meetings, interviews, etc.) collected by him and his colleagues concerning the preparation of both the 7th Amendment Act of the AVAVG and the AFG (see also Blankenburg et al., 1976).

² And also despite more and more white-collar employees being able to stop paying contributions because their income exceeded the limit for compulsory insurance. This limit was abolished in 1967. Since then all employees (apart from tenured civil servants - *Beamte*) have had to pay monthly contributions to the *Bundesanstalt für Arbeit*.

The level of *Arbeitslosengeld* had last been fixed in 1956 to around 51 - 55% of the previous net income (degressive system). Family supplements could be obtained on top of this but a maximum benefit was fixed at 70%. According to Leder (1967a), by the mid 1960s it had widely been agreed by persons 'knowledgable' ^{above} the AVAVG that the gap between the net income and the wage replacement transfer had become too wide. Benefit levels should have been improved because, as a right 'acquired through the payments of contributions' (ibid., p. 114), existing levels were no longer perceived as a legitimate reward. Indeed, as indicated earlier, reform plans by the CDU with regard to the AVAVG included an increase in benefit levels in relation to previous wages - although that was not a central objective of legislative proposals. However, there was no pressure for political action. Since the early 1960s there had been full employment with job vacancies exceeding the number of job seekers. Unemployment was not perceived as a political or social problem and other social policy areas (health insurance, pensions) seemed, for the government, more pressing at the time.

The employment situation was not expected to change in 1966 despite some problems in the mining industry in the spring which made future pit closures more likely. As a political reaction to this, contribution and benefit ceilings were raised within the unemployment insurance system, giving workers with higher monthly incomes higher benefits in case of redundancy. With hindsight this decision turned out to have been a favourable one for many unemployed people by the end of the year. But even in early October 1966 unusual problems in the labour market were not predicted. Instead the government intended to reduce the contribution rate for unemployment insurance to 1.1% in 1967 and 1968. However, these plans were abandoned quickly when the number of people out of work suddenly tripled to over 600,000 between November 1966 and January 1967. As indicated above, in a legislative Bill earlier that year, the CDU/CSU aimed to reform the AVAVG, including a more favourable relation between benefit levels and former earnings. But as a response to the economic crisis, the government, consisting by then of a newly-formed coalition between CDU and SPD, was convinced that improvements of benefits had to be given high priority. A quick political action in advance of the reform was regarded as necessary in order to assist the growing number of jobless people.

The coalition was supported by a lucky coincidence which made speedy legislation possible. A seventh Amendment Act of the AVAVG had been proposed by the Federal Constitutional Court and put before the *Bundestag*

which transferred it to the Committee of Labour (*Ausschuß für Arbeit*) on 18 January 1967.¹ The Bill was concerned with questions regarding compulsory insurance for agricultural workers employed by family members. The government proposed the incorporation of regulations concerning mainly the improvement of benefit rates into the Bill and the Committee agreed to this procedure. There was a general agreement among Committee members with the suggested amendments. Due to time pressure, there were only four meetings before the Committee reported back to the *Bundestag* on 15 February 1967. Also in Parliament there was a general agreement to pass the Amendment Act quickly which was done unanimously on 17 February 1967. Thus, after less than one month of consideration, improved benefit levels were implemented by the *Bundestag* and came into force on 1 April 1967.

During the second and third reading of the Bill, Adolf Müller (CDU), then Chairman of the Committee of Labour, spelled out the reasons for this speedy legislative procedure. The main cause, he argued, was the rise in unemployment as the result of a sudden crisis occurring in the mining, steel and, partly, textile industries. People were being made redundant through no fault of their own and had to suffer not only a severe loss of income but also psychological distress (BT-Verh., 12 February 1967, p. 4336). A further rise in unemployment was conceivable, demonstrations had been held and it was not advisable to wait for the implementation of the general reform of the AVAVG. Benefit increases had generally been welcomed by all parties, including the FDP, before the sudden increase in unemployment had occurred, and also by the unions and employer organisations (AfA, 1967). Thus the CDU/SPD coalition had agreed upon a linear increase of *Arbeitslosengeld* to 62.5% of the former net income for unmarried workers. Correspondingly *Arbeitslosenhilfe* rose to 52.5%. Additionally family supplements were raised from 9 to 12 DM per week and would no longer be reduced but paid on top of child allowances and the maximum limit of wage replacement would be raised from 70% to 80% of former net income. With reference to the experience in the early 1930s in Germany, Adolf Müller stressed the importance of not only raising benefits but also encouraging training and retraining. This was achieved by improving the amount of *Unterhaltsgeld* (subsistence allowance granted during periods of

¹ The *Ausschuß für Arbeit* (later *Ausschuß für Arbeit und Sozialordnung*) is a permanent committee involving social policy experts of the parliamentary parties as well as experts from the *Bundesministerium für Arbeit und Sozialordnung* (Ministry of Labour and Social Affairs). Its tasks are to discuss, amend, accept or reject bills concerning social policy matters and report back to the *Bundestag* before legislation is made.

retraining) to a level equivalent to 120% of *Arbeitslosengeld*. Also the 'settling in allowance' for older workers was to be increased, making it possible for employers to receive a wage subsidy of up to 60% for up to two years.

The consensus between the coalition partners upon the amendments had become possible because a main disagreement had been resolved before the Committee stage. The social policy wing within the CDU, and especially Hans Katzer (CDU), the Minister of Labour and Social Affairs, preferred a 20% rise in unemployment benefits which he stated publicly just before Christmas 1966. This was broadly in line with the Parliamentary SPD and the unions (see *Soziale Sicherheit*, 1967, p. 109) who had been demanding a linear rise of *Arbeitslosengeld* to 65% of the former gross income.¹ The minister's statement however turned out to have been made without consultation with the Cabinet, which might be symptomatic of the unexpectedness of the sudden increase of unemployment and the perceived need to indicate a speedy political reaction. He was criticised in a letter by Georg Kiesinger (CDU), Chancellor of the 'Grand Coalition', to stick to the regular procedure of discussing matters first (see *Der Spiegel*, 16 January 1967). Within Cabinet, the economic wing of the CDU and a majority in government intended to introduce an increase of just 10% with a possibility of a further increase within the reform of the AVAVG. However, because of the perceived urgency to legislate quickly with regard to potential implications of high unemployment (see Adolf Müller's comments above) a compromise, resulting in a rise of 15%, was found very quickly between the left of the CDU and the SPD on one side and the economic wing of the CDU on the other.

The FDP, who in general agreed to the Bill, argued that a more differential uprating would have been a better solution. It was criticised because the effect of additional benefits such as housing benefit and also tax rebates on the final income of jobless workers had apparently not been taken into account by the government. The total benefit payments would be too close to the former net income, it was argued, which would discourage unemployed people to seek work (see BT-Verh., 12 February 1967, p. 4341). This was rejected by both coalition parties. Adolf Müller stated that the 'majority of German employees' had a 'good work ethic and 'preferred work to the undignifying queuing for the dole money' (BT-Verh., *ibid.*, p. 4336). While there was a general agreement outside Parliament about the need to increase unemployment benefits, the

¹ According to Musa (*Soziale Sicherheit*, 1, 1967, p.2) the *Bundesministerium für Arbeit und Sozialordnung* intended an increase of ALG to 65% of the former net income and the abolition of the limited duration of benefit entitlement.

legislation provoked critical comments from the liberal and conservative press, especially with regard to the hasty way in which a consensus was found within the coalition. The leader of the conservative *Frankfurter Allgemeine Zeitung* described the compromise as a 'deal between oriental carpet sellers' (ibid., 15 February, 1967). Employers criticised the advancement of higher benefits as splitting the forthcoming reform of the AVAVG into a 'salami Act' (*Der Arbeitgeber*, 1/2, 1967, p. 6). Their main complaint however was the increase of unemployment benefit which was regarded as being too high (*Der Arbeitgeber*, 4, 1967).

The CDU/CSU and the SPD defended the legislation and maintained that the improvement of unemployment benefits entailed not only social policy considerations but also economical reasoning. Transfer payments to unemployed people functioned as wage replacements and would make up for the lost market income. The increase of these wage replacement benefits would support industries producing consumer goods (see BT-Verh., 12 February 1967, p. 4339). With regard to the AFG in preparation, Erwin Folger (SPD) described the Amendment Act as the 'first step of a structural intervention into the labour-market' (Bt-Verh., ibid., p. 4338).

3. The *Stabilitätsgesetz*

The economic crisis in 1966/67 was quickly overcome with a speedy recovery in production during the second half of 1967. While the rate of unemployment rose to 2.1% in 1967, it declined to 1.5% in the following year and to less than 1% in 1969 (*MittAB*, 2, 1975, p. 136). The shift in dominant economic policy thinking towards a gradual adoption of Keynesian ideas, fostered by the inclusion of the SPD in the new coalition, became obvious in the response to the economic problem in 1966/67. Karl Schiller (SPD) who had become the new Minister of Economic Affairs within the 'Grand Coalition', introduced two 'contingency budgets' in early 1967 which involved additional public spending of 2.5 billion DM and 5.2 billion DM. Additionally, more favourable conditions for the depreciation of capital goods were introduced to encourage private investment.

As indicated earlier, in the late 1950s, against the background of a hegemonic conservative bloc and successive losses of general elections, the SPD had made an ideological shift in their programmatic policy. In the *Godesberger Programm* from 1959 the view of a society dominated by antagonist classes was abandoned in favour of the idea of 'common interests in production'. The autonomy of

private capital was accepted and a consensus could be reached by the 'interaction of interests' as 'constitutional factors in a pluralist society'. The DGB adopted a similar view in 1963. However, economic growth based on a capitalist mode of production was still perceived as potentially under threat from cyclical recessions, hindering the materialisation of 'common interests in production'. Guided by 'modern' Keynesian macroeconomic theories, the government's role was to steer the economy indirectly by influencing the level of aggregate demand in order to guarantee economic growth and full-employment' (Hoffmann, 1982, p. 11). With regard to social policy, radical programmes were abandoned by the SPD and replaced by the intention to expand welfare services and benefits in line with and dependent on economic growth. The new thinking within the SPD was emphasised by the Minister of Economic Affairs within the Grand Coalition. Karl Schiller argued that 'neither the relative shares of the net national product nor even - as in earlier programmes - the distribution of property, are meant to be altered but, while guaranteeing a rising national product with the help of modern economic policies, the income of all will be increased while the relative proportions remain untouched' (quoted in Hoffmann, 1982, p. 12).¹

The minister's economic concept became known as 'global control', adopting more forward planning on the 'macro level' mixed with competition on the 'micro level'. There was no direct interference in private companies but decisions were influenced by positive sanctions such as tax allowances, subsidies etc. While this secured the predominance of private capital it nevertheless meant a 'clear abolition of the former neoliberal doctrine' (Huffschnid, 1978, p. 120). In order to embark on forward economic planning and to prevent potential crises, a broad social consensus and cooperation was perceived as necessary by the CDU/SPD coalition. Both employers and unions were incorporated in the formulation and carrying out of the new macroeconomic policies. Tripartite talks had been held as recommended by the Council of Experts in 1965 and 1966 but were formally institutionalised as the *Konzertierte Aktion* in 1967. This was a regular circle of discussions between the government, the unions and the employers. The first talks were held early in 1967 against the background of the economic crisis. With the benefit of hindsight, the *Konzertierte Aktion* was the beginning of a period between 1967 and 1974 which can be considered the 'corporatist phase' in the West German history of economic policy making (Hoffmann, 1987, p. 348).

¹ Based on this principle, a number of reforms were to be implemented after 1969 when the SPD became the largest party in a coalition with the FDP (see Chapter 6).

The *Konzertierte Aktion* became part of the new economic policy guidelines, which were outlined and stipulated in the *Stabilitätsgesetz*, implemented in June 1967.¹ Its main aim was to achieve and to secure a macroeconomic equilibrium, the so-called *Magisches Viereck* (magic square). The four interdependent components, and political aims, of this square were price stability, a high level of employment, a balance of payment equilibrium and a steady and appropriate level of economic growth. The means to achieve these goals broadly followed two directions. Firstly, power was transferred from the *Länder* to the Federal Government, restricting the *Länder's* financial freedom. Secondly some alterations were made concerning the tax system, allowing the government to reduce companies' tax liabilities when purchasing capital goods (see Hufschmid, 1978, p. 157). In this way a more 'cooperative' and anticyclical public spending pattern was intended also with regard to regional administrative bodies who had more than two thirds of public investments at their disposal (Abelshauser, 1983, p. 112).

4. The *Arbeitsförderungsgesetz* - aims and controversies

One of the means of achieving the goals outlined in the *Stabilitätsgesetz* was the pursuit of an 'active' labour-market policy. While this term has never been clearly defined, it became widely used to label the *Arbeitsförderungsgesetz* (AFG) (see Bieback, 1978, p. 391). During the first reading of the AFG Bill, Hans Katzer spelled out its basic philosophy (see *Bundesarbeitsblatt*, 6, 1969, pp. 325).² If economic growth was desired, he argued, structural changes in the economy had not only to be accepted but also to be accommodated by 'active' policies. While employees affected by these changes would have to be protected, the central aspects of the AFG were directed at the labour market and designed to create a higher degree of labour mobility. Existing programmes administered by the *Bundesanstalt* had to be reconsidered and more emphasis put on a 'productive use' of its resources in order to preserve and create jobs instead of simply paying benefits to jobless people. It was the 'first and most noble aim of

¹ The official full title of the Act was *Gesetz zur Förderung der Stabilität des Wachstums der Wirtschaft* (Act for the promotion of the stability of economic growth).

² The Bill was introduced on 16 November 1967 and had its first reading three weeks later. Unlike the AVAVG Amendment Act a year earlier, the AFG proposal was widely debated. The AfA held 23 meetings between February 1968 and April 1969 when a report was made to the *Bundestag*. Outside interests were considered at a two-day public hearing in Berlin in March 1968 when the opinions representatives of various groups in society and experts, including foreign experts like Rudolf Meidner from Sweden, were heard.

public and economic policy', Hans Katzer maintained, 'to ensure stable full employment on a high level of productivity' (*Bundesarbeitsblatt*, *ibid.*, p. 326).

The AFG was not however a fundamental reform of its predecessor, the AVAVG. The ideological priority of employment service over income support in case of unemployment was not new. As Bieback (1978) points out, the prime function of the AVAVG programmes was to promote labour mobility and flexibility in order to adapt labour supply to labour demand. In that sense the promotion of, for instance, occupational training and guidance had always been regarded as supporting a better allocation of workers while payments made in case of short-term working or of unemployment were regarded as 'second best'. This was made explicit in the general reform of the AVAVG in 1956 and was also reflected in schemes implemented in the late 1950s such as the improvement of the integration of the severely handicapped into the labour market or the introduction of subsidies for the construction industry in order to promote the continuation of work during the winter months. Thus, while the enactment of the AFG extended the classical German employment service, it did not modify it in principle.

An ideological emphasis was put however on the prevention of structural unemployment and the increase of regional and occupational labour mobility. Unlike earlier legislation, training allowances were granted as of right and made more attractive to applicants, covering the costs of travel, teaching aids, etc.. There were other improvements in the areas of vocational education and guidance, the integration of elderly, women and handicapped in the labour-market and so forth (for details see *Bundesarbeitsblatt*, 6, 1969). These programmes were mainly uncontroversial and widely welcomed inside and outside the *Bundestag*. In accordance with the central subject of this study, I will draw attention to the less debated area of alterations made to aspects of unemployment compensation. Firstly however, I will concentrate on some controversial features of the new Act in order to highlight the positions of the main groups of actors involved in the formulation and amendment of the AFG.

Regulations concerning income support schemes within the new legislative framework were placed further back and unemployment compensation in particular trailed all other programmes - although regulations are rather extensive and, in terms of expenditure, unemployment benefits have been the largest part of the AFG (see Appendix B, table 2). The aim to integrate labour market programmes into overall anticyclical economic policies, and to increase their importance within the set of schemes administered by the *Bundesanstalt*, was

also reflected on a semantic level. In its 1966/67 report the Council of Experts suggested converting the *Bundesanstalt* into a 'Federal Office for Employment and Structural Policy'. The *Bundesanstalt* successfully protested against this on the grounds of maintaining its independence as a self-governing body outside the government.

But the resistance against another change of terminology was fruitless. The former title *Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung* (Federal Institute for Employment Service and Unemployment Insurance) was replaced by the shorter term *Bundesanstalt für Arbeit* (Federal Labour Institute) and the former AVAVG (*Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung* - Employment Service and Unemployment Insurance Act) by AFG (*Arbeitsförderungsgesetz* - Labour Promotion Act). This change was intended to emphasise the equal status of all programmes administered by the *Bundesanstalt* with regard to the central aim of employment promotion (see BT-Verh. 13 December 1967, p. 7407). The *Bundesanstalt* (see AfA, 1968c, p. 186) as well as the DGB (*Soziale Sicherheit*, 3, 1968) demanded the retention of the term 'insurance' within both titles, underlining the traditional centrality of unemployment insurance. But Manfred Baden, by then deputy head of the labour market and unemployment insurance section within the Ministry of Labour argued that the alteration was partly made for symbolic reasons, i.e. to avoid the impression that unemployment insurance was the main purpose of the AFG and the *Bundesanstalt* (see AfA, 1968a). For similar reasons the terminology concerning the funding of the programmes administered by the *Bundesanstalt* was changed. Before 1969, the proportion of the earnings workers had to pay in order to be entitled to unemployment benefits were called 'unemployment insurance contributions'. The official term after the implementation of the AFG has become 'contributions to the *Bundesanstalt für Arbeit*', in order to indicate that resources were not only (and, symbolically, not even primarily) used to finance unemployment benefits.

The funding of the *Bundesanstalt* was a controversial aspect of the new Act. Especially the DGB (see *Soziale Sicherheit*, 5, 1968) but also the SPD (see BT-Verh., 13 December 1967, p. 7408) argued that, since the *Bundesanstalt* was offering some services to the whole population rather than merely to contributors (e.g. vocational guidance, employment service, etc.), only insurance benefits (unemployment benefits, short term and bad weather allowances) should be paid for by contributions. Either more resources out of general taxation should be channelled from the government to the *Bundesanstalt* or a 'labour-market' levy

should be imposed on certain groups such as the self-employed and civil servants. The position of employer organisations concerning this question seemed ambiguous, but at the public hearing it was argued that the then present financial system should be continued in order to prevent greater interference by the government into the tripartite body of the *Bundesanstalt* (AfA, 1968d, p. 78). However, the Minister of Labour and Social Affairs argued that 'financial worries could only be secondary' (BT-Verh., 13 December 1967, p. 7404) and that a financing reform would mean, due to legal complications, a delay in the implementation of the AFG. A compromise was found in order not to postpone the implementation of the Act. While the existing financial system was continued, it was agreed that the outcome in the expenditure of the AFG should be looked at, in relation to the different sections, after a few years of operation. Thus, as regard to the funding system, the AFG was implemented as an interim measure.

There were other contentious issues - as well as other ways to diffuse conflict. The SPD's bill from 1967 (regarding the adaptation of the AVAVG towards changes in the economy) included a reform of the traditional system of vocational education. Soon it became obvious that this was an area of divergent interests within the coalition but a solution was found quickly. While the SPD proposal and the preparation of the AFG were discussed jointly at first, at a later stage questions concerning vocational education were debated separately and (some of) the SPD suggestions became part of another Act. In this way a consensus was secured as far as the AFG was concerned, which was further helped by formulating policy objectives in very broad terms.

In fact, while there was an agreement between all parties in Parliament on the aims of the Act, the strongest criticism was made outside it. The *Bundesanstalt* took the most conservative position, defending the status quo and the primacy of the 'insurance principle' (see Blankenburg et al., 1976, p. 265). The administrative board of the *Bundesanstalt* feared a violation of its right of self-determination and stressed the point that the Office can only play a supportive role concerning economic policies in general and employment policies in particular, while the responsibility for both areas would remain with the Federal government. The *Bundesanstalt* did not intend to administer independent labour market policies because this, it was feared, might lead to the conclusion that resources for such schemes would only be available from its budget. The function of this budget however, was primarily to secure the financing of wage replacement benefits to the unemployed, who had a legal right to these payments

acquired through contributions. A substantial financial reserve was needed, it was argued, in order to avoid government subsidies to the *Bundesanstalt* at times of rising unemployment (see AfA, 1968c, pp. 167).

However, the 'unproductive' use of the reserves, sometimes referred to as the 'tower of Sabel' (alluding to Anton Sabel, the then president of the *Bundesanstalt*) had been criticised by various commentators throughout the 1960s and the AFG introduced regulations which gave more power to the Ministry of Labour and Social Affairs as far as the use of the reserves was concerned. The savings were split into a smaller part to be used for securing the liquidity of the *Bundesanstalt* and a bigger one to be invested on a long term basis for up to 15 years. For economic expediency however, the Ministry was allowed also to place the first part of the reserve in the money market. In the case of a deficit in the *Bundesanstalt* budget, the Federal government would to lend resources up to a certain limit and thereafter subsidise the *Bundesanstalt* budget. There were other legal restrictions on the *Bundesanstalt* power and some critics feared that these aspects of the AFG would result in the quasi-integration of the *Bundesanstalt* into the Ministry of Labour and Social Affairs (see Weller, 1970).

5. Income support for the unemployed within the AFG

In general, commentators said very little about changes affecting income support schemes for the unemployed within the AFG. As outlined, improvements had already been made in April 1967 and the government argued that a continuation of the then current legislation was possible because 'wage replacement' benefits had stood their test (see BT-Drs., 13 December 1967, p. 57). However, while changes made seem small in relation to other sections of the AFG, they were in fact very important as far as rights of the unemployed and access to benefits were concerned.

First of all, the definition of unemployment was altered which widened the coverage of potential claimants. Previous holders of so-called minor jobs on a self-employed basis were no longer excluded from the 'status' of being unemployed. The term 'minor' was also redefined, being linked only to the hours of work during a week (reduced from 'less than 24 hours' to 'less than 20 hours') and not to the amount of money earned any longer. These changes offered to groups who had formerly been excluded access to benefits. But also the legal position of existing benefit claimants was improved by the inclusion of the term 'suitable employment' into the AFG. Since its implementation, unemployed people have not been expected to accept any kind of jobs offered by

the employment service but only a 'suitable' one. 'Suitability' included more than the former or learned occupation however and was formulated as an abstract legal definition in order to leave room for 'adaptation to changing values of society' and the consideration of individual circumstances (see BT-Drs., 1969). These changes were perhaps symptomatic with regard to the improved labour market situation after 1967. Full employment had been reestablished and problems of high unemployment were not expected. On the contrary, the need to 'redeploy' labour became once again a policy concern in order to foster economic restructuring and growth (see below).

The duration of benefit entitlement remained broken up into five brackets and determined by the length of prior employment, with a maximum entitlement of one year. Also the minimum period in employment allowing access to *Arbeitslosengeld* remained 26 weeks but guaranteed a longer entitlement of benefit receipt. The maximum duration of benefit, for example, was reached after two years in insured employment instead of three. Thus, the former relation between time of employment and the period of entitlement to *Arbeitslosengeld*, was improved from three to one to two to one. Also the 'relevant contribution period' (during which insured employment was considered) prior to the start of unemployment was extended from two to three years. The intention behind this change was to prevent hardship especially for those workers who had been ill for longer periods before becoming unemployed (see Bt-Drs., 1969, p. 18). Finally, the '3 waiting days' before the receipt of *Arbeitslosengeld* were abolished, because a waiting period was regarded as 'unjustified in a social political sense' as far as 'wage replacement benefits' were concerned (Kröner, 1969, p. 350).

Influenced by the scope of these benefit improvements, in addition to the ones introduced in April 1967, the Ministry of Labour and Social Affairs proposed an increase in the *Sperrfrist* (disqualification period), i.e. the period during which benefits were disallowed because the claimant had left the job voluntarily 'without good cause' or refused to accept a suitable job offer from the employment service. The standard disqualification period had been 24 days, with the possibility of a discretionary reduction or increase to a maximum of 48 days. In the AFG draft, the Ministry proposed an increase in the standard duration to 42 days, with a maximum of 84 days (see BT-Drs., 1967b). Manfred Baden maintained that the 'community of contributors', most of whom would never receive any unemployment benefits, would need better protection after benefit improvements came into effect in 1967. These changes had 'threatened the work ethic' and might be a 'temptation for some to receive benefits without seeking

work' (AfA, 1968e, p. 7). In 1969, the Committee for Labour successfully dismissed the proposal however, and argued that a disqualification period of more than four weeks was sufficient to safeguard the interests of contributors. Individual circumstances would have to be taken into account when the interests of the unemployed were weighed up against those of the 'community of contributors' (BT-Drs., 1969, p. 20). Also, the term *Sperrfrist* was to be replaced with *Sperrzeit*, indicating that the payment of the benefit during the disqualification period was no longer foregone but only delayed, so that the overall duration of entitlement was not affected. The Committee also argued that it did not conform to 'contemporary thought' that the unemployed should be forced to 'sign on' regularly. Rather, if desired, unemployment benefit would be paid in cheque form. Furthermore, unemployed workers would only have to contact the employment office if they received a specific request concerning questions relating to the job search (ibid., p. 22).

With regard to *Arbeitslosenhilfe*, in the AFG Bill it was stated that it should remain as a benefit for those who had exhausted their right to *Arbeitslosengeld* or did not fulfill the conditions to receive it. Research into the social structure of unemployment conducted at the end of 1967 showed that there had been a steady decline of *Arbeitslosenhilfe* recipients up to 1966 and during a public hearing at the Committee of Labour it was pointed out that only 4.9% of the unemployed were jobless for more than one year. Thus, there was no 'chronic unemployment' to a great extent (AfA, 1968c, p. 178). Nevertheless, more favourable conditions for obtaining *Arbeitslosenhilfe* were proposed in the Bill because, the government argued, unemployed should be dealt with by the *Bundesanstalt* and not by municipalities administering and financing *Sozialhilfe* (see Chapter 4). For the calculation of *Arbeitslosenhilfe* it was suggested that the income of the applicant, his or her spouse, and parents and children be taken into account only if those persons were living in the same household as the unemployed. The intention was to 'avoid a high degree of intrusion into the privacy of the family' (Bt-Drs., 12 February 1967, p. 58).

Further, the Committee improved proposals in the AFG Bill for raising disregarded income levels for the calculation of benefit rates, when it was stipulated in the AFG that only a quarter of additional income over and above a certain limit in relation to all relatives should be taken into account. The SPD claimed that these changes to the Bill in favour of the unemployed had been initiated by them (see BT-Verh., 1969, p. 12932). However there might be another explanation for the deviation between the Bill and the AFG. In the Bill it

was pointed out that there had been a steady decline of *Arbeitslosenhilfe* recipients as a proportion of all recipients of wage replacement benefits. This was true up to 1967 when the Bill was drafted and the share had dropped to less than 10%. In 1968 and 1969 the proportion rose to 21%,¹ which might have influenced the more favourable decisions.

It is indisputable that changes in relation to income support for the unemployed have played a relatively minor part in the AFG. However, as outlined, they were important improvements for those dependent on unemployment benefits. It seems reasonable to argue that these changes were based on considerations which applied to other sections of the AFG as well, i.e. to accommodate structural changes of production processes. Higher levels of unemployment benefits and easier access to them might have been perceived in two ways: firstly to cushion and compensate those who would be affected by the desired and 'inevitable' changes in the economy. This was also necessary in order to ensure political legitimation. According to Abelshauser (1983) unemployment was perceived as the trouble area in the late 1960s. As outlined with regard to the government's thinking at the end of 1966, a rise in joblessness was regarded as precarious for the majority of the population and as a potentially threatening development for politicians considering the effects of high unemployment in the 1930s (see Abelshauser, *ibid.*, p. 111). Secondly, while employment policies became the touchstone of successful economic policy making, unemployment benefits became a functional component of the AFG as a prerequisite for the optimal working of the labour market. While allowances for training and retraining courses were given priority, benefits granted in the case of (inevitable) unemployment at a time of labour shortages could allow unemployed people to extend their job search activities, which in turn would avoid a dysfunctional allocation of labour.

6. Conclusion

Changes in production processes, in combination with a shortage of qualified labour, hindered the sustained economic growth which industry had become accustomed to during the 1950s. More forward planning, political intervention into markets, and more cooperative economic policy making between the Federal government, the *Länder* and municipalities, but also including employers and the unions, was required at a time when a continuous profit realisation seemed

¹ The figures are based on calculations from *Arbeit und Sozialstatistik - Hauptergebnisse*, 1989, p. 10 and *Beiträge aus der Arbeitsmarkt- und Berufsforschung*, 101, 1988, p. 38.

threatened. Conservative-led governments were only reluctantly realising these demands and lacked appropriate policy instruments for a more active involvement in economic affairs in general and the labour market in particular. This situation, in addition to other factors, such as the growing strength of extremist right-wing parties, led to the breakdown of the CDU/FDP coalition in the second half of 1966 and the formation of the 'Grand Coalition' between the CDU and the SPD. The new government accelerated the preparation of new legislation such as the *Stabilitätsgesetz* and the AFG and also promoted the involvement of the unions and employers into the formulation and administration of public economic policy making.

Preparation of legislation was speeded up by the economic crisis and the concomittant rapid rise in unemployment, which came as a surprise in December 1966. Unemployment had been very low until then but rose quickly to over 3% in the first half of 1967. There was a general understanding that workers had become unemployed involuntarily, being exposed to external, and for them uncontrollable forces. Demonstrations were held and a political reaction followed suit. Training allowances were increased but the main response was the improvement of unemployment benefits by roughly 15% in April 1967. The replacement of the FDP (who criticised the scope of the benefit increase) by the SPD in government contributed to the level of the increment. Differences within the coalition government over the appropriate rise in benefit rates between the SPD and the 'social policy wing' of the CDU on the one side and the 'economic wing' of the CDU on the other, had been resolved quickly, emphasising the perceived need for speedy legislation. While the extent of the increase was controversial, the need for a prompt improvement was not. Higher benefit levels had been advocated before and constituted a part of the AFG in preparation. But the repercussion of the sudden economic recession at the end of 1966 induced quick political action. Improved financial support for unemployed workers was regarded as a necessity not least to secure political legitimacy. Furthermore, accumulated reserves in the budget of the *Bundesanstalt* allowed increases without any negative effects on the Federal government's resources.

After 1966, Keynesian-inspired economic policy ideas had succeeded neo-liberal theories as the dominant orientation for the government's economic policy making symbolised by the *Stabilitätsgesetz*, which was implemented in 1967 and might be described as the manifesto of the new economic policy doctrine of the 'Grand Coalition'. Another, related, indication of the perceived need for forward planning was the introduction of the AFG. The economic crisis accelerated

preparations, but, as I have illustrated, the new Act was not a direct reaction to the recession in 1966/67. The crisis, as well as the inclusion of the SPD in government, simply precipitated the eventual implementation of the AFG in 1969. Potential areas of conflict between the CDU and the SPD were successfully diffused by either excluding specific sections from the scope of the new legislation, by referring to a future review of the financial basis of the specific programmes and by using broad formulations to describe the goals of the Act. Apparently, the intention to implement the AFG as soon as possible pushed back any potential areas of conflict within the coalition which might have delayed or even cancelled the implementation. In order to secure broad agreement there were a number of consultations with numerous groups and individuals outside the *Bundestag* which were coordinated by the Ministry of Labour as well as the Committee of Labour (see Blankenburg et al., 1976).

The only serious opposition at the time came from the *Bundesanstalt* which resented a stronger incorporation into the Federal government's economic policy making and, as illustrated earlier, defended the traditional 'insurance principle'. Its primary function was regarded as being to safeguard a sufficient reserve for the payment of benefits to those regularly contributing to the unemployment insurance fund. A guarantee of sufficient savings to grant benefits had to remain a priority. Also, it was argued, the primary responsibility of administering and financing employment and labour market policies should remain with the Federal government. The *Bundesanstalt* was prepared only to act in a supportive but not a responsible role. However, these arguments turned out to be weak against the objectives of the coalition government, which were implemented in the new legislation.

The AFG's structure and components were not fundamentally different from those of the previous regulatory framework. But there was a greater emphasis on training and retraining programmes and on other schemes to increase labour mobility. These aspects were also given ideological priority over the payment of compensatory benefits. As described earlier, this became not only manifest on a material level but also on a symbolic one, involving semantic changes. In sum, the AFG was an instrument for the support and realisation of economic goals outlined in the *Stabilitätsgesetz*. Its major function was to contribute to the creation of an appropriate structure of employment which would fit changes in production processes. Such a structure was intended to be created by extending instruments promoting a better allocation of workers (e.g. conducting permanent vocational guidance) with improved regional (e.g. granting removal costs) and

occupational mobility (e.g. rights to allowances for periods of training and retraining).

Although often neglected by commentators, easier access to benefits (e.g. shorter qualification periods, the abolition of 'waiting days') as well as better conditions for the receipt of benefits (e.g. higher disregards on income for the calculation of *Arbeitslosenhilfe*) were introduced with the implementation of the AFG in 1969. However, early in 1967, when the AFG Bill was drafted, unemployment was unusually high, which might have influenced proposals to lengthen disqualification periods for 'voluntary unemployment'. But unemployment quickly declined again and by the time these suggestions were dismissed, the unemployment rate had returned to below 1%. Thus, stricter adjustments to the unemployment benefits, regarded as appropriate early in 1967, might have been perceived as dysfunctional in 1968 and 1969. Restrictive measures aiming to direct people into (normally low paid) jobs or stopping people leaving jobs might have seemed appropriate at a time of relatively high unemployment. With the exception of the short period in 1967 this condition was not met in West Germany at any time in the 1960s. Instead, unemployment levels were very low and this appeared to have been a significant factor for the improvement of unemployment benefits in 1969 with the objective of assisting jobless workers to extend their job search periods.

In sum, the idea of protecting workers affected by ongoing structural changes in the economy appeared to have been influential for benefit improvements in the late 1960s. Also, the intention of securing political legitimacy was a major factor for the speed of the political response after the sudden rise of redundancies in 1966/67. The aspect of unemployment benefits facilitating a prolonged job search and thus a better allocation of labour however, seemed to have been a subordinate but nevertheless functional component of the AFG reform and a main determinant for developments within the income support systems for the unemployed with regard to the period 1967 to 1969 in West Germany.

Comparative assessment

The context for changes in unemployment compensation schemes in the second half of the 1960s was similar in some respects but differed in others in the two countries under consideration. Economically, during the 1950s and 1960s, successive British governments came up against recurrent balance of

payment deficits and, in comparison with other European countries, low and fluctuating growth rates. Governments reacted with 'stop-go' policies, which continued also after the two general elections won by Labour in 1964 and 1966. In West Germany, on the other hand, economic growth rates were comparatively high and stable, inflation rates were low, and economic output was based on a strong export industry.

During the 1960s, demands were made on governments in both countries for more intervention in economic affairs in order to guarantee or improve sustained economic growth rates, which seemed threatened by structural changes in production processes (automation, new technology) and, as research results indicated, an insufficient future supply of qualified labour. As a response, in both countries tripartite bodies were set up, either in an advisory capacity (NEDC) or as institutions more actively involved in the formulation and administration of economic policy making (*Konzertierte Aktion*). Broad objectives of this more cooperative or corporatist approach to economic planning were outlined in the 'National Plan' and the *Stabilitätsgesetz*. A common perception in both countries was that economic restructuring was not only inevitable but also a necessary precondition for economic growth. The political task with regard to the labour-market was to assist ongoing and future changes by the promotion of labour mobility, including the 'redeployment' of labour from declining to growth industries.

In West Germany the institutional setting for a more comprehensive approach was favourable. Labour-market policies had traditionally been based on a single regulatory framework and were already administered by a tripartite body, consisting of union and employer representatives and the state. Unemployment insurance benefits were part of this framework. Political changes resulted in an extension of already existing programmes with an emphasis put on schemes for training and retraining. Allowances were increased and granted as of right. The British legislative 'outcome' was comparatively more fragmented and less interventionist. Various new Acts were implemented, introducing 'indirect' policies such as legislative frameworks (Redundancy Payment Act) or limited opportunities, and incentives, for training (Industrial Training Act).

One important component of the British policies was the introduction of earnings-related benefits. Various plans reached back to the early 1960s and had been drafted by both major political parties and the introduction of the scheme in 1966 was uncontroversial. Other social policy reforms had been promised by the Labour government but were cancelled in 1966 in line with cuts in public

expenditure. The earnings-related benefit scheme was given priority however, reflecting both its predominant character as a labour-market instrument and as an inexpensive policy innovation. Higher benefits were introduced for better paid workers who, it was believed, would be affected by economic restructuring. The ERS was intended to weaken resistance to redundancies and to assist a 'shake out' of labour. Grants closer to accustomed living standards should allow unemployed workers to prolong job search activities, avoiding a dysfunctional allocation of labour. The comparatively strict conditions attached (duration of supplement, 12 waiting days) reflected the 'experimental nature' of the scheme, regarding traditional British systems of flat-rate benefits (see below), but also the intention to curb public expenditure. Criticisms raised with regard to 'imperfections' of the scheme (exclusion of the long-term unemployed and workers on low wages and with irregular forms of employment) were swept aside with the promise of future amendments. The consensually perceived need for a quick implementation apparently overshadowed doubts and underlined the priority of 'labour mobility' over social policy aspects.

In West Germany, wage-related social security benefits had traditionally been a central feature of social security arrangements. This was not different for unemployment insurance. An increase of benefits had been planned since the late 1950s and, as part of the AFG in preparation in the mid 1960s, was welcomed by all parties. But, due to very low unemployment rates, there was no pressure for immediate political action. This changed dramatically with the economic crisis and sudden rise in unemployment in December 1966 and early 1967. One political reaction was to increase unemployment insurance benefits. A major reason for this quick response was the intention of securing political legitimacy. Workers were regarded as having become unemployed through no fault of their own and the government referred to the example of high unemployment in the 1930s. Higher benefits were regarded as essential for the preservation of social peace. Also, the increase of insurance benefits was feasible with regard to financial aspects. The *Bundesanstalt* had accumulated high reserves since the late 1950s so that benefit increases were affordable without any effect on the Federal government's resources. Furthermore, Keynesian economic theories had succeeded neo-liberal ideas - facilitated by the formation of the 'Grand Coalition'. Accordingly, the function of unemployment benefits as a replacement for lost purchasing power became more widely accepted. As far as the level of the increase in unemployment benefit levels was concerned, the inclusion of the SPD in government in 1966 was relevant, for the increase as such it was not.

Further favourable changes in unemployment compensation were made two years later as part of the AFG. The major reason behind these alterations seems to have been based on a particular perception of unemployment benefits at the time. Unemployment had returned to its previous low level and was not expected to be a problem in the medium future. On the contrary, a growing shortage of qualified labour was expected. One response was to introduce better incentives to workers for training and for moving into other jobs. Thus, more generous arrangements and better access to insurance benefits functioned as complementary to improved 'active' labour-market instruments, which were implemented to promote a higher degree of labour mobility.

The differing economic situation and the state of the labour-market in Great Britain after 1966 had a major impact on subsequent social security policies as far as the unemployed receiving supplementary benefits were concerned. Unemployment also rose in Great Britain during 1966 and 1967, but, unlike in West Germany, it did not decline thereafter. Furthermore, what turned out to be a short-term crisis in West Germany remained a long-lasting economic problem in Great Britain up to 1968 when successive deflationary budgets and cuts in public expenditure were introduced after the pound had been devalued in late 1967.

In 1966 a long-term addition to supplementary benefits was introduced, possibly as a cheaper solution of the promised income guarantee. Unemployed claimants were excluded from the addition however. A decline in long-term unemployment between 1964 to 1966 might have been influential for this decision, but another problem was the existence of the wage-stop rule. An introduction of the long-term addition for the unemployed would have resulted in more claimants being affected by the rule, so that the addition would have had no effect on the income situation of formerly low paid workers. More families were already affected by the rule after supplementary benefits were increased at the end of 1966 and a rise in unemployment had occurred. Pressure on the government from inside and outside Parliament was growing and eventually resulted in a 'softening' of the rule in 1967. While this was widely welcomed, the relatively sympathetic attitude to the unemployed changed during 1968. The level of unemployment did not decline but remained above 500,000, which, in combination with relatively stagnating wage levels, contributed to growing public concern about alleged cases of 'workshyness'. The government did little to dismiss these allegations but used them to legitimate the introduction of the 'four-week' rule in mid 1968. Despite ill-concealed hints for the need for higher

margins of labour supply only two years earlier, it was apparently convenient for the government to put the blame for the failure to reduce the overall level of unemployment on the behaviour of the section of unemployed not covered by insurance benefits.

However, influenced by the need to cut public expenditure, attacks were also made on income provision within the unemployment insurance system. But the unsuccessful attempt to introduce 'three waiting days' in 1968 illustrated the wider support for recipients of insurance benefits compared with assistance benefits. This was in part facilitated by the apparent inability to change particular short-term transfers (i.e. unemployment benefits) while leaving other types (i.e. sickness benefit) unchanged.¹ Interestingly enough, the differing direction of changes made to unemployment benefits in West Germany during the same year can be exemplified by the abolition of the 'three waiting days', underlining the major objective behind the introduction of the AFG, i.e. the promotion of greater labour mobility.

Heclo (1974, p. 149) argues that unemployment insurance benefits in Great Britain were used as instruments to promote labour-market mobility in the second half of the 1960s. While this is a correct observation which, as I have illustrated, can be extended to West Germany, it has to be stressed that it included not only positive incentives granted within the insurance system but also stricter regulations introduced within the assistance scheme, at least as far as Great Britain was concerned. In West Germany unemployment was very low and the allocation of labour to low-skilled and low-paid jobs was increasingly guaranteed by a growing number of *Gastarbeiter*. Thus, a potential need to control an appropriate level of labour supply for those jobs could be influenced less by social security arrangements and more by legal instruments concerning individual rights of residence and work.

Also, changes made within the schemes in both countries during the second half of the 1960s, hardly resulted from a process of 'political learning' on the part of the administrative system, which Heclo (ibid., pp. 284) identified as the main motor behind the introduction and the development of unemployment insurance schemes. Rather, it seems that predicted changes in economic structures and a perception, shared by governments in both Great Britain and West Germany, of the need to accommodate these by interventions in the labour-market were highly influential. However, both the National Insurance Act and the AFG were 'good weather' Acts, i.e. they were prepared in the context of

¹ This interpretation was shared by a number of interviewees.

relatively favourable economic conditions and introduced with the consent of the opposition and also of organisations outside Parliament. The increase of benefits in West Germany in April 1967, and the introduction of more restrictive measures in Great Britain in the summer of 1968, were comparatively short-term policies, i.e. political responses to the sudden increase in unemployment on the one hand, and the reaction to stagnating unemployment on the other. Different economic situations at the time made these reactions possible in West Germany and, in the government's view, convenient and appropriate in Great Britain. In 1966, better paid workers were induced to accept redundancies by the introduction of improved incentives for prolonged job search activities. Two years later disincentives were reinforced which applied to recipients of assistance benefits, i.e. to mainly less well paid workers, with the (stated) aim of shortening the length of time taken searching for a job. Influenced by a changed labour market situation after 1966, the implementation of stricter measures in 1968 can be regarded as a continuation of policies which aimed at an increase of labour mobility by different means and directed at a different section of the labour force.

As outlined in Chapter 2, a central concern of this study is to examine to what extent benefit changes have been influenced by different institutional settings and social policy traditions in the two countries. Great Britain and West Germany were referred to as representing two distinct types of social security arrangements and policy legacies. Characteristic features of these types are needs-oriented, modest and universal flat-rate benefits financed by general flat-rate (but later graduated) contributions versus wage-centred, status-oriented income-related benefits funded by earmarked and graduated contributions. By the 1950s, driven by the intention to reduce growing deficits in the national insurance scheme, the British government had introduced a limited scheme of graduated contributions in return for 'differentiated, but miserly pensions' so that the 'Conservative plan in effect approximated a system of graded contributions for flat-rate benefits' (Baldwin, 1990, p. 240). Are the changes introduced in unemployment benefit systems in the second half of the 1960s another indication that these two types converged (see Wilensky et al., 1987)?

In Great Britain earnings-related benefits were introduced and granted only to better paid workers with stable employment records before becoming unemployed. This suggests a move towards a system of differential transfers according to status. In West Germany, access to insurance benefits was made easier and coverage was extended. Groups like agricultural workers, apprentices and students for retraining were included in the unemployment insurance system.

This could be interpreted as a move towards a more egalitarian system. In this respect a convergence through 'diffusion' (Alber, 1987, p. 135) was observable. However, in contrast to Hecló (1974) this process was not caused by 'political learning' but influenced by external factors. A similar political perception of economic requirements led to similar policies, 'filtered' by traditional institutional settings. In Great Britain the demarcation between 'less deserving' recipients of assistance benefits and the 'more deserving' claimants of insurance benefits became more apparent due to the introduction of the earnings-related supplement, the retention of the wage-stop rule and the implementation of more coercive policies introduced in 1968. Factually it became more visible because of a high and stagnating level of unemployment. In West Germany, with its entirely income-related insurance system, the differential treatment of benefit claimants became less transparent due to the low unemployment levels, which were not expected to rise. Thus, national differences in the labour market and economic situation appear to have been significant influences which contributed to benefit schemes becoming more similar in the way described above.

However, the observed process of convergence with respect to unemployment benefit arrangements was of a limited nature and the implication that the influence of distinctive institutional differences on policy changes can be neglected would be misleading. The interconnection of different kinds of benefit types in Great Britain (i.e. unemployment and sickness benefits), which is not matched in West Germany, has already been mentioned. Furthermore, while the implementation of earnings-related benefits in Great Britain was facilitated by the negligible effect on public expenditure as a whole, higher benefit rates in West Germany were regarded as feasible because of financial reserves in a particular budget outside the Federal government. The positive financial balance of the *Bundesanstalt* was an important precondition for benefit improvements in the second half of the 1960s. With hindsight, the conditions prevalent in West Germany after 1966 (high economic growth rates, low unemployment, a large surplus in the *Bundesanstalt* budget) were unusual. Debts would have altered perceptions for policy options significantly so that the influence of traditional institutional structures and principles would have become more apparent. This will be demonstrated in subsequent chapters.

Chapter 6

Unemployment compensation under economic constraints - the mid 1970s

In the previous chapter it was shown that legislation was introduced in both Great Britain and West Germany, altering the overall structure of income support schemes for the unemployed, or at least amending and extending these to a certain extent. Debates inside and outside parliament had been held and longer-term planning and formulation of these policies were made before legislation was enacted. By comparison, in the mid 1970s, the overall structure of benefit provision remained largely unaltered while some minor legislative changes were introduced as short-term responses to political and social problems influenced by the economic crisis from the end of 1973 onwards. A steep and sudden rise in oil prices and other raw material affected both countries and initiated the deepest economic recession in West German and British history after World War II. It provided a similar, but in some respects also different background for changes in unemployment compensation schemes. I will illustrate that the different welfare state frameworks in which the systems operate (e.g. the relation to expenditure on other types of benefits such as on long term benefits in Great Britain and on vocational training in West Germany) played a vital part in shaping policy outcomes. Again, the chapter is divided into three parts, concentrating on Great Britain first, followed by an analysis of benefit changes in West Germany, before, finally, a comparative assessment is made. However, some background information on legislative changes which were introduced between the end of the period discussed in the previous chapter and the onset of the economic crisis will precede the more detailed examination of changes in both countries.

Great Britain

1. Benefit changes before 1974

The system of flat-rate unemployment insurance benefits remained unaltered under the Labour government until 1970, and the promised revision of the 'interim' ERS scheme never took place. Only a White Paper (Cmnd 3883), published in 1969, 'toyed with the idea of changing national insurance unemployment benefit into a wholly earnings-related scheme' (Micklewright, 1989, p. 538). These considerations were rejected soon afterwards however, when, in a second White Paper (Cmnd 4124) a reform of the ERS scheme was regarded as inappropriate because it had only been in operation for a short time. Compared with the mid 1960s, unemployment levels remained relatively high and a change in the system, possibly making it more accessible and generous, might have been interpreted as the government giving up its commitment to fight unemployment. This impression was to be avoided - especially with regard to the forthcoming election in 1970.

This interpretation would help to explain the Labour government's continuation of emphasis on control of jobless claimants of assistance benefits. It intended to introduce a mandatory reduction for workers disqualified for unemployment insurance benefits because of 'misconduct', 'voluntarily' leaving their job 'without good cause' or the refusal of a suitable offer of employment (see Lynes, 1974, p. 77). The proposed deduction was one third of the claimant's personal scale rate and, in case of marriage, also one third of the wife's benefit.¹ Previous standard but discretionary deductions imposed by the SBC were regarded by the government as 'totally inadequate' (SBC, 1977, p. 211). Criticisms of the proposed amount of the abatement and consequent amendments (limiting the penalty to the claimant's personal benefit only) came too late however, and the Bill was dropped after Labour's defeat in the 1970 general election.

¹Until 1982 the application for supplementary benefit could only be made by the male 'head of the family' on behalf of his wife and children. Even in the case where it was the wife and not the husband actually seeking employment, he had to claim on behalf of her. In accordance with a 1978 European Community directive, regulations were introduced in November 1983 to ensure 'equal treatment', i.e. allowing for either half of the couple to be the claimant.

The incoming Conservative government under Edward Heath as Prime Minister and Anthony Barber as Chancellor of the Exchequer was initially committed to decreasing public expenditure and direct taxation and to reducing state intervention into markets (see Stewart, 1977, pp. 119). Social security benefits were intended to be more directed at those 'in need'. As far as the unemployed were concerned, the 1971 Social Security Act introduced two major changes. Firstly, Labour's plan to increase the penalty for unemployed workers claiming supplementary benefits because of disqualification for insurance benefits was put into practice. The Conservative administration imposed a deduction of 40% (20% in case of hardship inflicted) of the claimant's personal scale rate for up to six weeks. For 1971 this meant an increase from 75 pence to £2.30 a week for 'voluntary unemployment'. Secondly, another alteration, which had also been considered by Labour (see Chapter 5), was made in relation to flat-rate insurance payments. Benefits for the first three 'waiting' days of a period out of work for unemployed or sick people, previously payable after a jobless spell which lasted more than 13 days, became no longer recoverable. Finally, the 1971 Act provided that only £1 of the resources of workers affected by a trade dispute were in the future to be disregarded. Formerly, it had become customary to disregard income such as strike pay or tax refunds up to the level of the claimant's requirements.

In the early 1970s, an alleged rise in cases of fraud and abuse of social security benefits became a concern of the government. The number of unemployment review officers (URO) was increased from 61 in 1969 to 115 in 1970 (see HCD, 16 December 1970, col. 180) and Sir Keith Joseph, then Secretary of State for Social Services, set up a committee under the chairmanship of Sir Henry Fisher to investigate the system controlling fraudulent claims of benefit. The committee's report was published on 18 March 1973 (Cmnd 5229). While the government followed its suggestion to strengthen control procedures by appointing further investigators, it did not agree with the proposal to set up a permanent committee to direct and supervise these measures. Neither were suggestions to introduce new random techniques to examine different types of abuse accepted. The Fisher Committee agreed in principle with the 'four-week-rule' (see previous chapter) but recommended a modified version, allowing the continuation of benefit unless the claimant had been notified, and refused to accept a suitable job (see also *Poverty*, 26, 1973). This proposal was also not accepted.

With regard to the overall economic policy direction, an important turn-about occurred in 1973. A rise in unemployment during the winter 1971/72 to nearly one million (an unprecedented post-war figure) had the effect of creating a 'wholesale panic in the ranks of the Government' (Keegan and Pennant-Rea, 1979, p. 199) which induced a U-turn of the government's economic doctrine from deflationary to expansionary policies. The Treasury was 'deeply worried' (ibid., p. 200) about the unemployment trend and 'the brakes were off public expenditure yet again' (ibid.).¹ As a result, unemployment levels declined to just over 600,000 in 1973. Also, in contrast to earlier policy directions, unions were invited to participate in economic policy making. Talks eventually foundered however, which led to statutory incomes policy in November 1972. As will become apparent later, it is important to note these events in order to understand Labour's policy after the party returned to power in 1974 (see below).

For the time being however, another important change in 1972 has to be mentioned which had specific implications concerning the position of unemployed benefit claimants throughout the 1970s and thereafter. As part of the annual uprating, the long term addition, payable to certain groups of claimants of supplementary benefit (but not the unemployed, see Chapter 5), was increased by 10 pence in 1972. According to the SBC, this signified the beginning of a new era in as far as the extra payment, unlike the existing long term addition of 50 pence², was not offset against any discretionary 'exceptional circumstances addition'. It 'represented a departure from the principle that the long term addition was intended to meet special expenses and [as Margaret Herbison had stressed] not to provide a preferential rate of benefit for long term cases' (SBC, 1977, p. 212). This development was reinforced under the National Insurance and Supplementary Benefit Act 1973 with the replacement of the long term addition with the long-term scale rate, applicable to claimants with at least two years of continuous receipt of supplementary benefit, except the unemployed. While the long term addition had been the same for single people or married claimants and for householders or non-householders, the new long-term scale rates distinguished between these groups, providing higher benefits for householders and married couples. The new rates came into effect in October 1973 and represented, according to the DHSS, the start of the 'policy of differential increases for long - and short term benefits (DHSS, 1974, p. 1). The

¹ The 'emotive figure' of one million unemployed was, according to Deacon (1981), regarded as 'electorally disastrous' (ibid., p. 75).

² Claimants over 80 received a higher rate of long term addition - at that time 75 pence.

same act also provided for the first time a differential uprating within the insurance scheme, when pensioners and other 'long-term' claimants received higher increases than recipients of unemployment benefit, sickness benefit or maternity benefit.

As far as the ERS scheme was concerned the Conservative government introduced two changes. Computerisation enabled a quicker determination of individual former earnings records of unemployed workers relevant for the payment of the supplement. Drawing on unpublished administrative data, Micklewright (1989, p. 547) shows that up to 1973, one out of three unemployed had not been in receipt of ERS because of undetermined reckonable wages. While the new technology gradually improved the situation, it also required a longer time lag between the relevant contribution year and benefit year. Even for spells of unemployment starting at the beginning of the benefit year (now January to January) the time lag became at least nine months instead of one. For periods of interruption from work starting later in the year, the relevant contribution period would lie even further back. This was obviously disadvantageous, especially at a time of rapidly rising earnings which eroded the value of ERS. Also, if a period of entitlement to the supplement continued from December through to January there was no recalculation of the applicable amount of the benefit. Because of this, apparently administrative, impossibility, disparities in the amounts of the supplement for jobless workers occurred depending on the start of individual spells of unemployment. However, these systematic changes attracted little attention when approved by Parliament in June 1972 (see Lynes, 1974, p. 80).

The second change introduced a new formula for the calculation of the earnings-related supplement. Since 1966 the ERS had simply represented a third of reckonable earnings between £9 (lower earning limit) and £30 (upper earnings limit), thus resulting in a maximum supplement of £7. The change involved the increase of the lower earnings limit to £10 and a new upper earnings limit of £42. The new payment, from 1974 on, was based on one third of earnings between £10 and £30 plus 15% of earnings between £30 and £42. While the effect of the change seemed positive at first (increasing the maximum supplement to £8.47) income earners between £9 and £10 lost their entitlement to the supplement entirely and all workers with an income below £32 saw their ERS reduced, due to the new formula. Considering an average weekly wage of less than £30 for more than a quarter of all households in 1974 (*Social Trends*, 1975, p. 108) and the risk of unemployment falling disproportionately on lower paid

workers, the changes to the system seem at least ambivalent and might also have reduced public expenditure (see Reid, *Industrial Law Journal*, 1972, p. 51).

2. Labour in opposition - Labour in power

At the end of 1973 the Conservative government had considerable problems to overcome. Due to inflationary pressures it had adopted a statutory incomes policy from November 1972 onwards (see above), which started its second phase in April 1973 and stage three, unveiled in October 1973, led to a fierce confrontation between the government and the National Union of Mineworkers (NUM). An overtime ban by the NUM in November and measures by other unions in pursuit of pay claims came at the time of the oil crisis which struck industrialised countries at the end of 1973 and early 1974. Imposed price increases by the OPEC countries and the outbreak of the Arab - Israeli war in October 1973 led to a quadrupling of the price of oil between October 1973 and January 1974. The government responded with a restriction on the supply of energy for industry and commerce in December and imposed a three-day working week in the new year. Thus both internal and external pressure contributed to Edward Heath's announcement of a general election on 28 February.

The in-coming Labour government, under Harold Wilson as Prime Minister, emerged without an overall majority, which made another election later in the year likely. It also inherited an economic situation which was much worse than the one ten years before. Higher prices for oil and other import goods and a bad balance of payments situation were not easily to be offset by increased exports at the beginning of a world recession. Inflation had become a major problem, as the February election manifestos of both parties indicate but increasing unemployment was a likely threat too.

As a result, while other major industrialised countries responded to the onset of the economic recession with cutbacks in demand and efforts to balance their payments, Labour resisted deflationary measures at first. This was due to a number of factors (see Keegan and Pennant-Rea, 1979). One important factor was the electorally insecure position of Labour after the February election. Joel Barnett, Chief Secretary to the Treasury from March 1974 to 1979, recalled: 'I sometimes wonder how different a Budget it would have been if we had not been preparing it with the knowledge that we would be engaged in another General Election before the year was out (Barnett, 1982, p. 25). Another, and related, reason to resist budgetary cutbacks was the position of the TUC. Improved

contacts and a closer co-operation between these two organisations had begun in 1972 with the introduction of a TUC-Labour Party Liason Committee. This resulted in a number of policy proposals which were included in the February election manifesto. Essentially, the 'social contract' required that wage restraints by the unions be rewarded by a Labour government with increases in the 'social wage', such as higher pensions, price subsidies for food, council house rents, fuel and public transport as well as the avoidance of a steep rise in unemployment. However, another important reason for the initially expansionary response to the economic recession was the EEC referendum in June 1976. In sum, with regard to the time between February 1974 and summer 1975, 'there is little doubt that policy at this stage was still being dominated by manifesto commitments; and until the referendum on continued EEC membership was held in June 1976, no unpleasant decisions were going to be taken' (Keegan and Pennant-Rea, 1979, p. 201).

Only three weeks after Labour had taken office Denis Healey, the new Chancellor of the Exchequer, announced his budget. Pensions and other benefits were to be raised and higher subsidies for various goods were pledged. Income tax went up, especially for high income earners, and corporation taxes were increased. A new wealth tax was announced. Thus, although the budget was 'more or less neutral with respect to total expenditure' (Glyn and Harrison, 1980, p. 102), it included or proposed redistributive elements which had been pledged in the election manifesto. Barbara Castle, the new Secretary of State for Social Services, went into more detail on the new benefit rates to be introduced in July. This was three months before the annual uprating, to which the government was now committed, was due to take place.¹ In accordance with the February manifesto, which, compared with previous Labour manifestos, 'gave much greater emphasis to social policy' (Jordan, 1981, p. 84), pensions were given first priority and were raised by 29% for a single person and 28% for a married couple. This was a considerable increase compared with the previous rate from October 1973 but less impressive when it is taken into account that the proposal to raise pensions to these levels was first made in March 1972 and not revalued afterwards despite inflation rates of seven and nine per cent in 1972 and 1973, and accelerating price increases in early 1974 (see Trinder, 1975). Also, as Gough (1975) pointed out, the increase restored merely the value of the

¹ According to Barbara Castle's diaries, Treasury ministers had preferred a later date for the uprating to take place, leaving the Chancellor 'more options', but she insisted on the earlier date to keep pledges given in the manifesto and was 'determined to fight this to the death' (Castle, 1980, p. 54).

pension it had in March 1965, i.e. 21% of average earnings (see also Atkinson, *New Society*, 21 November 1974).

So called short-term social security benefits (mainly unemployment and sickness benefits) were raised by a smaller increment in absolute and relative terms, but the increase of 17% was 'more than sufficient to maintain their purchasing power' (Barbara Castle, HCD, 27 March 1974, col. 451) and 'the largest ever within the unemployment insurance scheme' (ibid.). In fact, from 1973 the government was compelled to increase insurance benefits in line with the movement of prices and was required to review their values annually. In its February election manifesto, Labour pledged to go a step further by increasing social security benefits in line with average earnings, provided this was advantageous to benefit recipients. The manifesto remained ambiguous however as to whether this would apply to both short-term and long-term benefits (see Labour Party Manifesto, 1974a, p. 308). However, at a press conference prior to her budget speech, Barbara Castle had hinted that only the level of pensions (and other long-term benefits) was to be linked to wage increases in the future, a decision which was 'in no small part due to the welcome influence of the trade unions on Labour Party social policy' (quoted in *The Times*, 19 March 1974).¹

Thus it became apparent that Labour had obviously adopted the principle that a larger gap between short-term and long-term benefit levels should become a permanent feature of social security (see also Pat Healy's article in *The Times*, 28 March 1974). The opposition welcomed Labour's intention to continue to distinguish between different categories of beneficiaries (see HCD, 27 March 1974, col. 454). In fact, Labour created a wider gap between long-term and short-term benefit rates than there had been before. Barbara Castle justified this decision by maintaining that 'a Government should feel free to choose their priorities' which would include 'to give one section of beneficiaries slightly more generous treatment than another section' (HCD, 10 April 1974, col. 468).

This was remarkable considering statements by Labour MPs during the second reading of the National Insurance and Supplementary Benefit Bill 1973, which prepared the introduction of the 'dual system' of insurance benefits. Then Brian O'Malley, who became Minister of State for Social Security in 1974, characterised the expression 'short-term' benefits as a 'misnomer', stressing that in February 1973 more than 110,000 people had been out of work for between 26 and 52 weeks, i.e. without any entitlement to ERS, and more than 170,000

¹ At the same conference, the Secretary of State made it clear that an increase in family allowances, which had not been raised since 1968, was ruled out because of priority given to pension increases.

unemployed had been jobless for more than one year. It was therefore 'intolerable that the Secretary of State should deal with this class of claimants as short-term claimants' (HCD, 30 April 1973, col. 821). Michael Meacher, another Labour MP, argued that 'penalising the sick and unemployed in order to demonstrate otherwise imperceptible fairness to the pensioner must be the cheapest con trick in the social security business for the present Government...' (ibid., col 846). In early 1972 individual Labour MPs demanded the extension of the duration of entitlement to ERS to one year and of flat-rate unemployment benefit to one and a half years (see Alec Jones, Standing Committee E, 13 February 1972, col. 505 and 507; and Michael Meacher, ibid., col. 533). It was also argued that unemployment benefit should in principle be paid as long as unemployment lasts. Payments for other disadvantages (such as invalidity or widowhood) were unlimited and there was no logic in 'treating unemployment differently' (Alec Jones, ibid., col. 508). However, as outlined, apart from raising benefit levels, none of these proposals were implemented after Labour's return to power.

Supplementary benefits were also raised in July 1974, in line with increases in insurance benefit. Thus, also within this scheme, the gap between the short-term and the long-term rate was widened. Flat-rate national insurance contributions were reduced for employees but increased for employers, while graduated contributions were increased for both (for details see DHSS, 1975, p. 12). A new system of purely earnings-related contribution rates had been prepared by the Heath government in 1973 and was eventually implemented by Labour in 1975. Labour did not repeal the Social Security Act 1973 in total because this would have delayed the start of a new earnings-related pension scheme. In fact, the Social Security Act 1973 retained its general structure and became law as the Social Security Act 1975. It required a switch to fully earnings-related national insurance contributions (see DHSS, 1975, p. 22) which implied a change in the regulations governing eligibility to flat-rate insurance benefits from a system based on the number to one based on the value of contributions made. This meant that in the future, better paid workers reached entitlement to benefits more quickly than lower paid workers.¹

The introduction of the new contribution/benefit structure indicated another shift of Labour's policy compared with its position in 1973. Kenneth Clarke, the

¹ The act also increased the reduced rate of contributions married women could choose to pay for, amongst other things, giving up the right to unemployment benefit. Labour, as well as the TUC (see TUC, 1976, p. 137) were against the continuation of this option and the Government phased it out from May 1977 onwards. Women who were married before that date however retained the option.

opposition spokesman for Health and Social Security, welcomed Labour's 'conversion to the whole principle of graduated contributions for flat rate benefits' (HCD, 1 July 1974, col. 49), which had been 'faced with very strong Labour opposition' (ibid.) in 1973. Brian O'Malley, speaking for the Labour Party, said it 'was opposed to a system of national insurance which provides flat-rate benefits for earnings-related contributions' (HCD, 30 April 1973, col. 816; see also ibid., col. 816) but preferred earnings-related benefits in return for earnings-related contributions. Also, the switch to entitlement to benefits based on the value (rather than number) of contributions was opposed for implying 'that a higher-paid worker will be able to gain a minimum contribution for fewer weeks than a lower-paid worker' (Brian O'Malley, 28 November 1972, col. 251). It should be noted however that these criticisms were not at the centre of Labour's response to the Bill but rather marginal points compared with the general agreement over better, but differently structured, pensions and a fully earnings-related contribution system.

As mentioned above, Labour did not repeal the 1973 Act and with that, also missed the opportunity of changing the only earnings-related benefit available for the unemployed within the social security system. Only a year earlier, Labour MPs had demanded an increase of unemployment benefit for claimants who had been out of work for more than six months. Considering the rising number of long-term unemployed, it was argued that benefit levels should be raised to the equivalent amount sick people received after six months in the form of the invalidity allowance (see Michael Meacher, Standing Committee F, 13 May 1973, col. 43). It was also suggested that ERS should be related to age instead of extending its duration to one year as had previously been proposed by Labour (ibid., col. 48). Yet, apart from the annual uprating of the upper earnings limit, the ERS scheme remained unaltered during Labour's entire period in power from 1974 to 1979.

This 'non-decision' contributed to the growing marginalisation of the ERS. As Reid pointed out, 'the remarkable thing about the earnings-related supplement is that so few people get it' (*Industrial Law Journal*, 1 1972, p. 253). Indeed between 1974 and 1976 only around 20% of all registered unemployed were entitled to the supplement at any one time (see Chapter 4, figure 4.1). The reasons for this varied for individual cases, and included insufficient contribution records or exhausted benefit periods, mainly due to growing long-term unemployment. Finally, the 85% rule in relation to the maximum benefit level (see Chapter 5) 'squeezed' or extinguished the amount of the supplement

considerably for an increasing number of claimants. Unpublished DHSS material shows that, while in 1969 only one in more than 100 unemployed workers had been affected by the rule, extinguishing the entitlement to ERS, this ratio increased to approximately one in 12 in 1975 and one in 5 in 1977 (see Micklewright, 1989, p. 547). The rule could have been waived or suspended by the Secretary of State, but 'necessary regulations were never brought in (Micklewright, *ibid.*, p. 539). Also, the practice of crediting contributions during periods of illness or unemployment remained applicable to flat-rate insurance benefits only, despite the fact that from the change in 1975 onwards relevant contribution records for both flat-rate benefits and the supplement were identical.

In general, changes affecting social security benefits announced in the first half of 1974 were welcomed by MPs from both sides of the House. Voices such as Dafydd Thomas, MP for Plaid Cymru, (see HCD, 1 July 1974, col. 77 and 78) who spoke of 'missed opportunities' in increasing unemployment benefit to a higher level and in guaranteeing an easier access through changed eligibility regulations, as well as giving the unemployed the entitlement to the long-term rate, remained scarce. The decision not to repeal the legislation which abolished the payment of short-term benefits for the first three 'waiting' days might be considered as another missed opportunity. In 1971 Labour MPs had protested strongly against this regulation introduced by the Heath government (see above), arguing that it would cause damage because of high unemployment figures (see Stanley Orme, James Sillars, Eric Heffer and Brian O'Malley, Standing Committee F, 10 June 1971, col. 326 to col. 448). After Labour's return to office in 1974 however, Brian O'Malley simply stated that a reinstatement of unemployment benefits for the first three days was not intended by the government because the priority was to 'provide increased rates of pension and other benefits which we have announced' (HCD, 21 March 1974, col. 166).

This was in line with the election manifesto from February 1974, which, in agreement with the TUC, emphasised improved support for pensioners as the main social security objective. However, the inactivity with regard to unemployment benefits remains remarkable, even though the scope of the problem had been declining since 1972. By early 1974 both the level of unemployment and the number of people who had been unemployed for more than 26 weeks had declined from almost 400,000 in September 1972 to 200,000 in September 1973. Also, fewer unemployed people were having to rely on supplementary benefit by the end of 1973 (250,000) compared with those at the end of 1972 (just under 400,000; see Lister and Field, 1978, p. 13 and p. 37).

This trend might have influenced Labour's decision not to act according to their intentions two years earlier. It should also be noted that the issue of unemployment benefits was neither dominant during Labour's time in opposition nor after the party's return to power. Yet the inconsistency between policy objectives when in opposition represented by a small group of individual MPs (even though as social security spokespersons acting on behalf of their party) and Party priorities when in power should not go unremarked. As outlined earlier, one of Labour's prime aims in 1974 was to improve pensions, which has to be linked to its wider but central objective of securing the TUC's cooperation with the government.

However, one change in relation to unemployment compensation should not be overlooked. In June 1974, the campaign against the 'four-week rule' (see the previous Chapter) was finally successful (see *Poverty*, 30, 1974). It was not abolished altogether however, but replaced by a new discretionary procedure. The difference was that after four weeks, instead of having supplementary benefit automatically withdrawn, claimants would be interviewed by an unemployment review officer. In cases where the unemployed claimant was considered not to be making 'a serious attempt' to find work or failed to attend the interview 'without good reason', the benefit payment could be stopped (see *Industrial Law Journal*, 3, 1974, p. 246).

3. Economic problems, the abolition of the 'wage stop' and benefit upratings

After having been in power without an overall majority for seven months, Labour won the general election in October with a narrow majority of three seats. The economic situation had worsened since February with inflation rates as high as 18% and growing unemployment, which contradicted the orthodox economic doctrine of a trade-off between unemployment and inflation. Subsequently, monetarist ideas to fight inflation instead of unemployment gained ground amongst leading economists (see Brittan, 1975 and Beckerman, in *New Statesman*, 1 November 1974) and within the Conservative Party. Following Sir Keith Joseph's 'conversion to monetarism' (Deacon, 1981, p. 77), a debate was sparked off concerning the credibility of giving continuing political priority to full employment. Sir Keith Joseph argued that a large part of registered unemployment consisted not only of 'frictional unemployment' but also of so-called 'unemployables' (such as elderly people and persons with physical or mental disabilities) and of 'drifters and hippies' drawing benefits while earning

money at the same time (see *The Times*, 6 September 1974). Around a third of registered joblessness should be discounted, he argued, for not actually being unemployed. The pursuit of full employment in the way it was understood in the 1950s and 1960s was, according to Joseph, not only an undesirable but also an unattainable goal.¹ This argument was supported by - amongst others - parts of the press and the former Governor of the Bank of England, Lord O'Brien (see *The Times*, 6 and 7 September 1979).²

Denis Healey's third budget in November was 'by now taking a more realistic view of the situation' (Stewart, 1977, p. 201). He reduced corporation tax and through other regulations improved the 'company sector's liquidity position by about £1.5 billion' (Stewart, *ibid.*, p. 202). A phasing out of subsidies to nationalised industries and increases in the price of petrol was introduced, accompanied by a 'protection of the less well-off' through increased family allowances and social security benefits. The Chancellor warned the unions to refrain from higher wage settlements. Deflationary measures would otherwise be inevitable, which would lead to higher unemployment.

The next uprating of benefits took place as early as April 1975, and a second round of increases followed in December of the same year. With regard to its pledge to raise pensions in line with earnings, long-term benefits were raised by 16% while short-term insurance benefits were uprated by only 13.3%. Supplementary benefits were increased by the same absolute amounts. Thus the gap between long-term and short-term benefits was widened once again which was justified by the Secretary of State by 'reminding' the House that 'many short-term beneficiaries get an earnings-related supplement on top of their flat-rate benefits' (HCD, *ibid.*, col. 417). Other claimants gained by the introduction of a new non-contributory invalidity pension and a new invalid care allowance. The opposition welcomed the upratings but pointed out that these were necessary because of high inflation and not because of Labour's intended policies (see HCD, *ibid.*, col. 420).

In early 1975 the economic outlook worsened further. The recession was deeper than the Labour government had expected while inflation was rising (see Chapter 4, figure 4.4) and wages increased by up to 25% to 30%. MPs on the

¹ See also the debate on this argument between Showler, Daniel and Sir Keith Joseph in *New Society*, 12, 19 and 26 September 1974.

² However, it was not before Margaret Thatcher replaced Edward Heath as leader of the Conservative Party in early 1975, that monetarist ideas became more 'mainstream' with the opposition. The election manifesto from October 1974 identified high inflation as a prime problem to be overcome but this was not to be 'done by using only one weapon', i.e. the control of money supply, which was 'a vital, though not the only, part of our counter-inflationary armoury' (*ibid.*, p. 316).

left of the Labour Party (Tribune group) demanded an increase in public expenditure and import controls in order to encourage domestic investment and to reduce unemployment, which was predicted by the CBI and other organisations to reach one million during the year (see *The Times*, 7 January 1975). The Public Sector Borrowing Requirement (PSBR) had turned out to be higher than had been predicted in 1974 and became, not only inside the Treasury, increasingly regarded as stifling private enterprise. Consequently the April budget did not introduce any measures to reflate the economy but reduced public expenditure, increased capital gains tax relief and implemented higher direct and indirect taxation rates. Denis Healey also increased personal tax allowances in order to lift the income of some 400,000 people at the lower end of earnings out of taxation. This was insufficient however, being counteracted by high inflation which pushed incomes quickly back into the tax system (see Townsend, *New Statesman*, 29 August 1975). The Chancellor conceded that the budget decisions could lead to a slowdown in aggregate demand and subsequently to higher unemployment, but argued that there was no other option as long as inflation rates remained high.

This line of argument was 'remarkably calmly received, with no outcry against it from any major trade union leader' (Stewart, 1977, p. 205). According to Stewart (*ibid.*), this was a gain for the government resulting from the 'social contract' with the TUC but also due to the changed nature of the incidence of unemployment in the mid 1970s. Joblessness was not affecting the 'militant workers in the mines, the power stations or the docks - or even the hospitals or the bakeries - whose pay demands were fuelling inflation' (*ibid.*, p. 205) as much as it had in the 1930s. In fact, in the 1970s, the old, the unskilled and increasingly the young, including school leavers, were disproportionately hit by unemployment (see *Department of Employment Gazette*, 1975 and 1976). However, another factor might have been the 'internationalisation' of unemployment. Rising unemployment was a common feature in the major open-market capitalist countries in the western world, which might have decreased public confidence in the British government's ability to fight the problem successfully on a national basis. A range of literature analyses possible reasons which might have contributed to (not only) the British governments' acceptance of successively higher unemployment levels during the post-war period before responding with 'reflationary action' (see, for instance, Blackaby, 1976; Showler, 1981; Deacon, 1981). However while this will not be discussed here, it is relevant to note that, during the period 1974 to 1976, inflation was

increasingly identified outside and also inside the government as the main political threat and, as mentioned above, monetarist ideas became, acknowledged or not, more widespread.

One of Labour's responses to growing unemployment was to expand existing and to introduce new training and job-creation programmes (see for an overview Hill, 1981; Bosworth and Wilson, 1980; Moon and Richardson, 1985, pp. 63; and, from an international comparative perspective, Webber, 1986). These schemes were mainly organised and/or financed through the Manpower Service Commission (MSC), which, from October 1974 onwards, became responsible for managing both the employment and training services previously provided by the Department of Employment. Both the CBI and the TUC, together with representatives of local authorities, were involved in the running of the MSC, which was separated from the government but accountable to the Secretary of State for Employment. However, the seriousness and merits of some of the programmes were sometimes regarded as controversial both inside and outside government. Joel Barnett recalled that there was 'a sort of collective guilt complex around the Cabinet table which led to expenditure on 'employment measures' that were far from being cost-effective' (Barnett, 1982, p. 50). Without going into detail about the failure to improve the employment situation substantially, it should be noted that many observers saw 'little more than diversionary window dressing' in employment programmes (Townsend, 1980, p. 17) and believed that the government merely wanted to demonstrate that 'something was being done about unemployment' (Deacon, 1981, p. 78).

One possible contributory effect of increasing unemployment levels might have been the abolition of the 'wage-stop' rule, enacted as part of the Child Benefit Act in 1975.¹ At the end of 1974 criticisms about the application of the rule had accumulated (see Elks, 1974; *New Society*, 28 November 1974). It was pointed out that only just over 8,000 claimants had been affected by the rule in November 1974 (HCD, 26 November 1974, col. 111) and that the rule 'notoriously discriminates against the long-term unemployed, the disabled and those who have large families' (Robin Cook, Labour MP, HCD, 10 December 1974, col. 227). In fact, in addition to increasing inflation, the introduction of

¹ The new child benefit scheme was intended to replace family allowances and child tax allowances by guaranteeing a tax-free cash benefit which included the first child. The scheme was originally intended to start in April 1977 but was postponed by the government in 1976. This was criticised, for instance, by the CPAG and also Barbara Castle (see *New Statesman*, 4 June 1976). The argument was that the government might have feared the union's disapproval reducing the father's tax allowance in favour of a direct benefit to the mother (from 'wallet to purse'). The new benefit was finally put into full force in 1979 (see also McCarthy, 1986, p. 259).

Family Income supplement (FIS) in 1971, a means-tested benefit for full-time earners on low wages with families, contributed to a fall in the numbers of families being affected by the rule to just over 10,000 in November 1973 (Elks, 1974, p. 68). Thus, the cost involved in abolishing the 'wage-stop' rule had diminished to just about £0.5m in early 1975 (HCD, 25 March 1975, col. 77). Barbara Castle announced the abolition of the rule at 'the first suitable opportunity' (HCD, 15 April 1975, col. 89) and she 'paid tribute to the people who had been campaigning' for its abolition. However, it seems that the low cost involved and the fact that the number of people affected had fallen even further 'to a mere 4,900' might have had a greater impact so that Barbara Castle eventually 'won on the abolition of the wage stop in the Social Services Committee...' (Castle, 1980, p. 292).

In May 1975 the Secretary of State announced details of the second uprating of social security benefits to be put into force later in the year. Differential increases in favour of long-term benefits were made once again and the date for the uprating was brought forward from December to November in 'recognition of the exceptionally high rate of inflation' (HCD, 22 May 1975, col. 1624). The relevant basis for the calculation of the uprating was the movement of prices and earnings between August 1974 and March 1975, resulting in increases of 'nearly 15%' for long-term and 'just over 13%' for short-term benefits (*ibid.*). Corresponding increases were made for short and long-term supplementary benefit scale rates.

A month later, Michael Meacher, by then Under Secretary for Health and Social Security, justified these decisions. Although the government had not taken account of increases in prices and earnings in April 1975, these would 'of course be reflected in the next following uprating' (HCD, 6 June 1975, col. 377). He also reminded the House that, with regard to the smaller increment of short-term benefits, earnings-related supplements 'of up to £9.37 can of course be paid in addition' (*ibid.*, col. 377). The opposition claimed that the value of benefits would not keep up with inflation in between the dates of upratings (see also SBC, 1976, p. 35). Additionally the abolition of the £10 Christmas bonus, which had been paid to pensioners for the past few years, was attacked. Michael Meacher responded that the bonus was not regarded by the government as an appropriate way to assist pensioners, which was one of the reasons that the uprating date was brought forward instead. He underlined again that inflation rates from April onwards would be taken into account for the next uprating and that it was the 'historic basis', i.e. considering price rises in the past rather than a

method of forecasting inflation, which was commonly agreed to be the best available procedure for calculating appropriate increases in benefits (see HCD, 16 June 1975, col. 404).

As Trinder points out, the decision to increase benefits one month early might have had a different reason to the one which was put forward by the government. 'It is possible that she [Barbara Castle] belatedly realised that to increase benefits in line with an eight month rise in the Retail Price Index would cover the period August 1974 (the last month used for calculating the previous increases) to April 1975' (Trinder, 1976, p. 63). Because April is normally the month with the most rapid increase in prices, its exclusion from the base of calculation, which in turn allowed the forwarding of the uprating date to November, resulted in increases of 4% less than would have occurred had the uprating been fixed for December. Whether such considerations were actually made and if so, how important these were, remains of course a matter of speculation. However, the decision to increase benefits in November, instead of December, 'turned out to be a very effective way of reducing public expenditure' (Trinder, *ibid.*, p. 65) - even if the next uprating had included April 1975, which was not the case as I will demonstrate below.

By summer 1975 the economic situation had deteriorated further. Unemployment rose steadily and the June inflation rate was 26%. The value of sterling had eroded too. After the EEC referendum was over in June, the government gave even greater priority to fighting inflation and to controlling public spending (see Keegan and Pennant-Rea, 1979, p. 204). A White Paper in July (Cmnd 6151) proposed wage and salary increases of not more than £6 over the period up to August 1976 with which the TUC reluctantly complied. In July the unemployment level (including school leavers) exceeded the one million mark and the government's response was to increase subsidies to the MSC for work creation programmes, the extension of the 'temporary employment subsidy' and other schemes. However, for many commentators (see for instance Deacon, 1981, p. 78; Kerr, 1981) Labour had already given up its commitment to full employment although Cabinet members did not acknowledge this publicly. However, the announcement that it would make more use of 'cash limits' indicated that a 'systematic attack on public expenditure' had begun (Kerr, 1981, p. 6). While social security expenditure was less affected by these restrictions, because of legal entitlements claimants had to benefits, other areas such as planned capital expenditure in education and housing were harder hit.

The high level of joblessness and the effect of successively inadequate benefit increases for unemployed claimants began to be highlighted in a number of studies which demonstrated the precarious and deteriorating situation of the long-term unemployed and their families but also of young workless people, living on unemployment benefit or supplementary benefit (see for instance Hill et al., 1973; Daniel, 1974; Marsden and Duff, 1975). Also the TUC appeared to have become more concerned about the income situation of unemployed claimants, without losing sight of what appeared to be still its primary social security objective, i.e. better pensions. After 'several meetings' during the year with Social Policy Ministers, the TUC claimed it had obtained the assurance that the government would 'review the system of short term benefits once the work on the detailed new Pension Bill had been completed' (TUC, 1975, p. 130) and 'economic circumstances improve' (ibid., p. 429). Against the background of high inflation the situation of the unemployed also attracted more interest from pressure groups such as the CPAG (see *Poverty*, 32, 1975) which, during fringe meetings at the annual conference of the Labour Party, demanded that the duration of the flat-rate benefit be extended and that the long term supplementary benefit rates be made applicable to the jobless too (see *Poverty*, 33, 1975).¹

Inside Parliament questions were raised at the end of 1975, for instance, about the possibility of extending the maximum duration of entitlement to unemployment benefit to 18 months (HCD, 26 November 1975, col. 182), but received a negative response from Brian O'Malley for requiring 'substantial additional expenditure' (HCD, 26 November 1975, col. 182). Similarly, it was argued that the suggestion to base the calculation of ERS on more recent earning figures would 'in the present economic situation' mean that additional expenditure would go only to those in receipt of the supplement (ibid.) while 'the government have thought it right to give priority to maintaining the value of flat-rate benefits' (Brian O'Malley, HCD, 18 December 1975, col. 751). Once again, the existence of the earnings-related supplement served as a justification not to increase insurance benefits or the supplement. The fact that, due to a continuous neglect of the earnings-related scheme since 1966, a declining minority of unemployed people were in receipt of the extra benefit (see Micklewright, 1989) was not a matter of debate. The conversion of the function of ERS into a

¹ The CPAG was against the continuation of ERS however, which was perceived as not being directed at people in most need. Easier access to higher and (provided higher tax thresholds were introduced) taxable flat-rate insurance benefits for the unemployed were preferred instead (see Lister, 1975, p. 43 and p. 55).

legitimation for legislative inactivity with regard to unemployment benefits will be reflected on later.

4. Uprating methods, priorities and 'scroungerphobia'

In early 1976 the economic situation had 'something of the quality of a nightmare' (Stewart, 1977, p. 127). Unemployment had reached the 'adjusted' level of 1.2 million in January.¹ Inflation, although on a downward trend, was still 24% on an annual basis and the balance of payment showed a deficit of £1.7m. A White Paper in February and the budget in April were both geared towards reducing public expenditure. Denis Healey, Harold Wilson and other leading Ministers were determined to make 'inevitable' cutbacks, not least in order to regain foreign confidence in the British currency.

In the April budget Denis Healey promised income tax concessions provided the unions would agree to a second round of incomes policy, which would restrict wage increases to a certain limit. An agreement was reached with the TUC which meant a loss in real earnings for workers in a second consecutive year.² The budget also included more 'cash limits', which were imposed on about 'three quarters of Central Government expenditure' (Glyn and Harrison, 1980, p. 118). Within the area of social spending, this affected mainly planned capital expenditure on housing and education (see Bosanquet and Townsend, 1980). Shortly before she was dismissed from her post by James Callaghan (who had replaced Harold Wilson as Prime Minister in April 1976), Barbara Castle announced changes in benefit rates which would come into force in the following November.

For the unemployed, there were two important factors involved in the uprating. Firstly, the government decided to change the method of calculating the amount of benefit increases and secondly, short-term benefit were increased by a higher increment than long-term benefits (see below). Because of declining inflation rates, Barbara Castle argued that it was no longer 'appropriate to base the uprating on a reference period which lies wholly in the past' (HCD, 7 April 1976, col. 426). Thus, instead of taking account of actual movements of prices and earnings between two dates in the past (the 'historical' method), the newly adopted procedure would cover the time since the last uprating took place in

¹ In February 1976 Michael Foot, Secretary of State for Employment, announced an alteration in the way in which unemployment was calculated. The 'adjusted' figure would exclude mainly school leavers, who had 'distorted unemployment figures' and were therefore to be counted separately (see *The Times*, 24 February 1976)

² A third round of incomes policy was rejected in 1977.

combination with an estimate of rises in earnings and prices up to the date the next increase would come into effect. In April 1976 this meant considering actual movements of prices from November 1975 to March 1976 and an estimation of inflation rates between April and November 1976. Because of this new 'forecasting' method, the government was able to disregard rises in prices or earnings between April 1975 and November 1975, which had been, as the opposition pointed out, 'peak months of inflation' for which claimants would not get any compensation (see Patrick Jenkin, HCD, 7 April 1976, col. 428).

The change to the new method allowed a reduction of public expenditure and it was with reference to public resources that the new procedure was justified. Using the 'historical' method would have forced the government, as Barbara Castle emphasised, to cover the cost for higher increases by raising national insurance contribution rates. 'An additional burden would have been put on the worker and the wage earner of £500 million for this uprating' (HCD, 7 April 1976, col. 431). However, it is noticable that the switch of methods was made despite Michael Meacher's assurance in 1975 (see above) that price rises in April of that year would be included in the next round of uprating and Brian O'Malley's statement in 1974, stressing that the 'historical' method was the fairest, providing a consistent link between movements of earnings and increases in long-term benefits (see Standing Committee B, 12 December 1974, col. 191). Robert Boscawen, a Conservative MP, remarked sarcastically that the government had found 'a brilliant way of cutting the social security bill by 500 million' (HCD, 24 June 1976, col. 2006). However, it was not the group of unemployed nor other short-term benefit claimants who were deemed to be losing out due to the new method after having been repeatedly disadvantaged in previous rounds of upratings compared with long-term recipients. Instead, retirement pensioners also remained the opposition's prime clientele and the debate in Parliament concentrated on this group of claimants (see also HCD, 24 June 1976, col. 1997).

A surprising second change in relation to the forthcoming uprating in November was the announcement of differential increases slightly in favour of short-term benefits. In a reversal of previous policies, short-term scale rates were increased by a margin of just over 16% whereas long-term benefits received an increase of 15% (single rates). Short-term and long-term supplementary benefit rates were uprated accordingly. However, considering absolute increases, pensioners still gained in comparison with, for instance, unemployed claimants,

and the gap between benefit levels in relative terms, which had been widened since 1973, was only marginally narrowed as table 6.1 shows.

Yet this decision was a significant break with previous procedures. The government maintained that it had intended 'deliberately to narrow the gap which has been growing to this disturbing extent' (Barbara Castle, HCD, 7 April 1976, col. 431), and which had 'caused undoubted hardship to certain unemployed and other short-term benefit families' (ibid., col. 432). This 'small but important shift' (Stanley Orme, HCD, 24 June 1976, col. 2010) towards a (relatively) more favourable treatment of short-term benefits caused considerable protest from the Conservative opposition because, it was argued, it would close the gap between in-work net income and benefits unemployed people could obtain. This would create 'added disincentives to work' and 'deepen the poverty trap' (Patrick Jenkin, HCD, 7 April 1976, col. 430). Robert Boscawen emphasised that ERS was part of 'many people's unemployment pay' (HCD, 24 June 1976, col. 2000) and that the group of retired claimants were the people most in need.

Table 6.1:

		Oct 1973	July 1974	Apr 1974	Nov 1975	Nov 1976
short-term benefit, single person	£ p week	7.35	8.60	9.80	11.10	12.90
	% increase	8.9	17.0	14.0	13.3	16.2
long-term benefit, single pension	£ p week	7.75	10.00	11.60	13.30	15.30
	% increase	14.8	29.0	16.0	14.7	15.0
margin	£ p. week	0.40	1.40	1.80	2.20	2.40
	%	5.4	16.3	18.4	19.8	18.6

(calculations based on *Social Security Statistics*, 1988, pp. 256 and 258)

Amongst a number of factors which appear to have been influential upon the decision in favour of short-term benefits, the TUC's position is important. As mentioned above, awareness about the income situation of the unemployed grew during the second half of 1975. In 1975 the level of unemployment had passed the one million mark. Long-term unemployment had increased and the number of unemployed who had to rely on supplementary benefits rose rapidly from 300,00 in 1974 (representing 35% of all recipients of supplementary allowances) to 540,000 in 1975 (49% of all; see Lister and Field, 1978, p. 37). In 1976 a TUC-Labour Party working group was set up to consider the future development

of short-term benefits within the national insurance system (see TUC, 1976, p. 136) and at a pre-budget meeting with the Chancellor in March, the TUC drew attention to the rising number of unemployed who had exhausted their entitlement to ERS and also to unemployment benefit.¹ However, public pressure in general also increased. Demonstrations were held in the second half of 1975 and early 1976 with the aim of making the government (and the TUC) more aware of the problem of unemployment (see *The Times*, 20 March 1976). The CPAG too had started to press for a special uprating of benefits paid to unemployed families (see *Poverty*, 35, 1976). The influence of government advisors appears to have been significant as well. Barbara Castle, referring to previously higher proportional upratings of long-term rates, emphasised that 'people connected with social affairs have been concerned about the extent to which the use of this formula has widened the gap between long-term and short-term benefits' (HCD, 7 April 1976, col. 432).²

The position of the SBC should not remain unmentioned here. David Donnison, who had replaced Lord Collison as chairman in October 1975, stressed that there had been a drop in the real value of short-term benefits since January 1973, while long-term benefits retained their values. 'If there are to be increases in the scale rates, I guess that the long-term unemployed, who are not entitled to the long-term addition which other claimants get, should be our first priority' (Donnison, 1976, p. 349). Also, because about 860,000 unemployed people had to rely on supplementary benefits in August 1976 (which was roughly two and a half times as many as in 1974), the Commission proposed the introduction of legislation providing equal treatment of claimants, i.e. allowing the unemployed entitlement to the long term rate (see also Donnison, 1982, p. 72).³

In mid 1976 the Chancellor of the Exchequer indicated unambiguously that Keynesian crisis management was not the policy the government thought appropriate to pursue. Inflation had to be attacked before unemployment could be reduced (see *The Times*, 1 July 1976). Similarly the Prime Minister warned that

¹ In May 1976 only 37% of the registered unemployed were receiving unemployment benefit while 49% were receiving supplementary benefit either in addition to unemployment benefit or as the sole source of income. The figures in 1948 were 71% and 16% (see SBC, 1977, p. 25) and in 1966, 49% and 24% (calculation based on Social Security Statistics, 1988, p. 13). For ERS see Chapter 4, figure 4.1.

² According to information from one interviewee, social security advisors to the government were highly influential upon the decision to increase benefits for the unemployed by a higher margin in 1976.

³ This proposal continued to be discussed and was adopted in a DHSS policy document in 1978 (see DHSS, 1978). I will return to this issue in the subsequent chapter.

unemployment might still be rising which, although regrettable, was no reason to deviate from the present economic policies which gave industrial development priority over social expenditure (see *The Times*, 17 July 1976). A month later another package of cuts was announced. Denis Healey reduced public expenditure by just over £1 billion in 1977/78 by, amongst other measures, decreasing subsidies to nationalised industries and cutting the defence budget, but also by reducing food subsidies, expenditure on education programmes and increasing charges for school meals.

Meanwhile, by mid 1976 public concern about the social security system had become more severe. Recurrent allegations and stories about an increasing number of abuses of welfare benefits appeared in newspapers. The press concentrated on a few spectacular cases (see Golding and Middleton, 1982) and Conservative MPs frequently demanded stricter controls to curb unemployed 'scroungers' and 'layabouts'.¹ One Conservative MP (Iain Sproat) in particular, maintained, but failed to provide evidence, that about half of those people claiming unemployment benefit were actually not unemployed and at least 20% of social security claims were fraudulent (see *The Times*, 5 August 1976). However, 'a sequence of scandals' and 'well publicised allegations of abuse' (Deacon, 1978, p. 131) were an important but insufficient explanation for the intensity of 'scroungerphobia' which was most intensive from mid 1976 to early 1977. As in the late 1960s (see Chapter 5) increased attention on social security fraud was accompanied by falling average wages and living standards. This certainly contributed to the welfare backlash, which, compared with the late 1960s or early 1970s, was much more severe (see also Sinfield, 1977, p. 63).

It was argued in the press and also by Conservative MPs that the difference between net earnings and benefit rates, especially for the unemployed, had become too small or even that being 'on the dole' was more rewarding (see HCD, 26 October 1976, col. 130 and 131).² At the annual Conservative Party conference in September 1976 the 'inefficiency' of the social security system formed the centre of a major debate (see *The Times*, 8 September 1976) and Conservative MPs launched bitter attacks on the government after higher benefit rates came into force in November, favouring, as described, short-term benefit

¹ There were too many questions to be listed here. For an unrepresentative selection see HCD, 16 July 1976, col. 294 to 296; 19 July 1976, col. 390; 21 July 1976 col. 516 and 517; 5 August 1976, col. 1027; 27 October 1976, col. 283; 3 November 1976, col. 631.

² The media preoccupation with alleged cases of social security fraud (see Golding and Middleton, 1982) was further strengthened after the increases in benefit rates in November 1976 came into force which, as described, provided higher relative increases for short-term claimants. This 'made the front page of virtually every paper' (Deacon, 1978, p. 123).

recipients slightly. Patrick Jenkin characterised the social security system as 'an open temptation not to work'. Given an average rent, work expenses and taxation, a married couple with two or more children needed an income 'above national earnings' in order to exceed applicable social security benefits and additional tax refunds which a comparable unemployed person could receive.¹ It was also unfair, Patrick Jenkin argued, that long-term benefits were taxable whereas short-term benefits remained tax-free. Legislation should be introduced in order to tax unemployment benefit (see *The Times*, 15 November 1976).

The argument that long-term benefits were taxable, while short-term transfers were not, was formally correct. However, Lustgarten pointed out that most pensions remained effectively tax-free (see *New Society*, 4 November 1976). The age allowance, introduced in 1975, provided pensioners with an annual tax allowance 50% higher than that granted to ordinary taxpayers. The annual amount of flat-rate pensions was below the tax allowance and not before other income, such as an occupational pension, was above £9 a week (for 1976) would the overall income still remain tax-free. However, in a BBC radio interview on 15 November 1976 David Ennals admitted that the government was contemplating the possibility of taxing short-term benefits, which he personally would support. But James Callaghan denounced this proposal two days later in Parliament. The idea had been considered by various previous governments since 1948, he argued, but was found to be impractical. The proposal was eventually dropped.

The government did however react to growing public anxiety over cases of benefit abuse by introducing stricter control measures (see DHSS, 1977, pp. 17). Labour defended the November increases in favour of unemployed claimants by arguing that these were just enough to compensate for price rises. David Ennals, who succeeded Barbara Castle, pointed out that, at a time of high unemployment, a cut in unemployment benefits would 'seriously damage the relationship between the government and trade unions, which is essential to our economic recovery' (*The Times*, 15 November 1976). Conceding some cases of benefit abuse, he argued that the problem was not as grave as some sections of the media and opposition MPs suggested. Non-take-up of benefits by people who were actually entitled to them was a much more pronounced phenomenon and tax avoidance and tax evasion was a more frequent and, in monetary terms, a

¹ The amount of tax refunds claimants could obtain depended on the amount of income tax a person had paid in the relevant tax year and was based on the tax allowance on annual earnings. Thus, the level of the former income, the time of year a person became unemployed and the composition of the household were factors determining whether and how much tax refund an unemployed person could expect.

far more serious problem. Similarly, David Donnison pointed out on various occasions that allegations of widespread fraud and abuse of supplementary benefits were false. He stressed that the amount of benefits might exceed former net incomes for only a minority of less than ten per cent of claimants (see *The Times*, 17 November 1976 and also 12 May 1976). This was mainly the case for claimants who had large families with four or more children and had been on low wages before becoming unemployed. The problem, he argued, was not one of high benefits but rather of low wages for low and unskilled workers, insufficient child benefits, non-take-up of in-work benefits and taxation thresholds which needed to be raised (see also Donnison, 1982, p. 67).

Before summing up and assessing the changes introduced in the mid 1970s, I will briefly describe two government proposals announced in the Social Security Bill of November 1976 which, if implemented, would have restricted benefits paid to two particular groups of unemployed claimants. Both suggestions were aimed at reducing public expenditure further. The first one applied to students drawing unemployment benefit or supplementary benefit during the 'short vacations' (Christmas and Easter). The government proposed the removal of entitlement to supplementary benefit during these vacations for students altogether from 1977/78. Earlier in the year student grants had been adjusted so that only students with requirements above the non-householder level would still need to claim supplementary benefits during the short vacations. Consequently the number of claims by students had declined from 155,000 at Christmas 1975 to 23,000 during the Christmas vacation in 1976 (see SBC, 1977, p. 27 and p. 119).

The other proposal was to reduce unemployment benefit for people over the age of 60, who were in receipt of an occupational pension of at least £25. David Ennals estimated that around 16,000 pensioners would have been affected by this decision, most of whom were people who, he argued, did not really intend to return to the active labour force and were not in need of an extra payment - such as retired civil servants, local government officers or retired bank managers. Financial savings, which were clearly the main purpose of both proposals (see HCD, 2 December 1976, col. 1181 and 1183) would have been around £14m.¹

While some Conservative MPs did not disagree with the restrictions concerning students (see Robert Boscawen, HCD, 2 December 1976), others opposed the proposal together with Labour backbenchers and members of other

¹ This included another change which was related to the 'earnings rule' of state pensioners.

parties. Thus the National Union of Students (NUS) received widespread support and the relevant clause of the Bill was eventually dropped in Committee. The proposal to restrict unemployment benefit for occupational pensioners was attacked even more fiercely. Amongst others, Patrick Jenkin pointed out that insurance benefits were granted as of right which in turn was based on contributions paid by individual workers. Instead of bending this right, a stricter application of the rule testing 'availability for work' was a more appropriate way of ensuring that claimants over 60 were 'genuinely' seeking employment. Cyril Smith, a Liberal MP, stressed that his party would oppose the proposal because it suggested the exclusion of one select group of claimants from entitlement to insurance benefits and would also introduce a means-tested element into a contributory scheme, penalising this particular group (HCD, 2 December 1976, col. 1213). Labour MPs emphasised that not only retired bank managers would be affected by the rule but also people such as postmen, post office technicians and former health service employees.

Also the TUC condemned the move to restrict unemployment benefit to occupational pensioners. A 'storm of protest' (TUC, 1976, p. 577) had followed a previous attempt made by the Labour government when the same proposal was made in the 1960s. Then the matter was referred to the National Insurance Advisory Committee (NIAC). The Committee reported in January 1968 (Cmnd 3545) and recommended a restriction in the payment of benefits on a sliding scale but the general election in 1970 stopped legislation. The Conservative government followed up Labour's intention but had to drop the plan when the proposal, incorporated in the National Insurance 1971 Bill, was defeated in the Committee stage as the result of the abstention of five Conservative MPs. The TUC argued that it was 'incredible that the present government should resurrect the issue' which called into question 'the basic principle of the national insurance scheme' (TUC, 1976, p. 578). The government reacted to these criticisms by increasing the amount an occupational pensioner could receive before his income was taken into account from £25 to £30. However, despite this concession the clause was defeated in Committee and was dropped.

The failed proposals with regard to occupational pensions especially might be symptomatic of the relative strength of one claimant group compared with another, i.e. the unemployed. While the needs of unemployed people continued to be questioned and the benefit increase in November 1976 was widely attacked, the defence of pension payments brought together a wide coalition reaching from the Conservative Party to the TUC. Taken together, the return to

upratings in favour of long-term benefits in 1977 and the strong resistance to any cuts in pension payments in 1976 seems indicative of the distinct treatment of and the division between more and less deserving recipients of state transfers. I will return to this issue below.

5. Conclusion

Between 1970 and 1974 the Conservative government provided some groups of social security claimants, who previously had been receiving the same or similar amounts of weekly benefits as unemployed claimants (e.g. pensioners and sick people, who had been out of work for more than 6 months) with higher benefits. Differences in levels of various types of benefits (e.g. the long term addition for supplementary benefits) had existed in the 1960s, but these had been fixed in monetary terms and thus were gradually whittled away in real terms. Since 1972 a more 'selective' policy had resulted in new categories of benefits and a widening in the gap between the value of benefits for the 'deserving' (pensioners, sick people) and 'undeserving' (unemployed) claimants. Labour's only weak resistance to this policy when in opposition was followed by the accentuation of benefit differentials from 1974 onwards. Thus, Labour not only consolidated this 'selective' policy trend but widened the gap between higher long-term benefits and lower short-term, mainly unemployment, benefits.

One of the reasons for this seems to have been Labour's preoccupation with the provision of better pensions, greatly influenced by priorities of the TUC. Cooperation with the TUC was perceived essential by Labour and the TUC's influence on Labour's February manifesto in 1974 was obvious. A new earnings-related pension scheme was to be implemented but administrative and systematic problems prevented immediate legislation. An immediate rise in pension levels might have been considered as an appropriate interim solution. Unemployment benefits were also increased in 1974, although to a lesser extent while the overall structure of unemployment compensation remained largely unchanged. This seemed surprising considering Labour's criticism against the Conservative government when the distinction between long-term and short-term insurance benefits was first introduced only a few years earlier. Then, Labour MPs had pointed out that long-term unemployment was high and that it was a 'misnomer' to provide long-term unemployed claimants with short-term benefits. Brian O'Malley, Michael Meacher and others demanded higher unemployment benefits should be paid for a longer period.

Apart from the TUC influence, the decline in the level of both long-term unemployment and the number of unemployed claimants having to resort to supplementary benefits by early 1974 might have been a factor not to introduce legislation in line with Labour's position in 1971 and 1972. Also, as already mentioned in the previous chapter, an improvement in benefit rates at a time of reduced, but still relatively high, jobless figures might have been ruled out in order not to give the impression that the government had conceded the inevitability of high unemployment. However, the government simply argued that there were insufficient resources to increase other benefits more substantially. The same argument was applied to justify the decision not to repeal the legislation which prevented unemployed claimants receiving benefit for their first three days out of work. Yet Labour's inconsistency between policy statements during its time in opposition and the priority devoted to pensions and to the consolidation of the principle of differential upratings in 1974 remains remarkable. Also, the apparent absence of a wider debate about this issue is perhaps indicative of the lack of interest in unemployment compensation at the time.

While in opposition Labour did not seem to have well-developed plans regarding the future of the ERS scheme. It was apparent however that the system was regarded as valuable, 'topping up' flat-rate unemployment benefits. Some alterations were needed to make the scheme more effective because, as Labour MPs stressed in 1972 and 1973, only a minority of the unemployed were in receipt of the supplement at any one time. However, after their return to power, Labour did not amend the scheme. Again, the decline in (long-term) unemployment might have contributed to this (non)decision in combination with the lack of resources due to priorities given to other types of benefits. However, it should be mentioned that an improvement to the ERS scheme was not a particularly pronounced element of the TUC's social policy demands. This is interesting from a comparative angle (see the discussion in part three of this chapter). Other groups dealing with social policy matters did not press for changes either. The CPAG, being more concerned with family poverty, remained indifferent to ERS and later even adopted a critical stance towards the continuation of the scheme on the grounds that it did not provide help for the people most in need.

A review of the ERS system never materialised (see Smee and Stern, 1978) and there was a lack of published administrative information discussing its effectiveness in relation to, for instance, the amount of the supplement individual

claimants were receiving (see Micklewright, 1989, p. 544). But in answers to Parliamentary questions it became obvious that only a minority of unemployed claimants were in receipt of ERS at any one time. This did not prevent the Labour government justifying its decision not to alter the structure of income support for the unemployed and reject demands for higher unemployment benefits by maintaining that ERS would 'top up' flat-rate benefits for 'many' unemployed claimants. This 'legitimation function' of the scheme was frequently applied between 1974 and 1976. The other, previously more pronounced, justification for the ERS system, i.e. to facilitate labour mobility, seemed to have disappeared by the mid 1970s when labour shortages were replaced by high unemployment.

The discontinuation of the 'four-week' rule in 1974 and the abolition of the 'wage-stop' in 1975 were, from the view of unemployed claimants of supplementary benefit, two positive decisions. Various groups, such as the CPAG, had been demanding the complete abolition of the 'four-week' rule, which was replaced by a more favourable administrative procedure to 'test' availability for work. The decision to abolish the 'wage-stop' was made in early 1975, which might seem surprising considering growing pressure to curb public expenditure, but the cost involved in doing so had become relatively low by that year.

The government's preoccupation with the fight against inflation at the expense of expanding employment had become apparent and during 1975 and 1976 Denis Healey announced various 'packages' of cuts in public expenditure. 'Cash limits' were imposed on public spending but affected total expenditure of 'demand-led' social security benefits less. However, other measures to cut benefit spending were found. High inflation required that Labour introduce two upratings in 1975 before a return to annual increases was made in 1976. The second uprating in 1975 was brought forward by one month, which seemed favourable for beneficiaries, but in fact helped, as described earlier, to reduce public expenditure. Also, a change in the method of uprating benefits made savings of around £500m possible. The new 'forecasting' method allowed the government to ignore price rises which occurred between April and November 1975. The new procedure was introduced despite previous statements by Labour MPs that both the 'historic' method was preferred for being fairer and that price rises for the months following March 1975 would be included in the calculation for the uprating in 1976. This can be regarded as indicative of the growing

dominance the Treasury had gained over social policy expenditure after 1974 (see Barnett, 1982; Castle, 1980, p. 148).

At each of the three upratings in 1974 and 1975 Labour provided a higher increase for pensions (and other long-term benefits). This was justified by reference to the 1974 election manifesto, when Labour promised a link in value of pensions to the price in average earnings or prices, whichever was more favourable. As outlined, this policy was in accordance with TUC demands and also the Conservative opposition favoured higher increments for pensions. As a result, the relative position of 'short-term beneficiaries', which was more or less a euphemism for the unemployed worsened compared with recipients of long-term benefits.

Yet in 1976 Labour decided to reverse its previous uprating principles and to favour short-term benefit recipients. In 1975 the level of unemployment had passed the one million mark. Long-term unemployment had increased and the number of unemployed who had to rely on supplementary benefits rose rapidly. Demonstrations focussed on the situation of the unemployed and, compared with the previous two years, the TUC concentrated more on the income situation of short-term social security claimants and demanded higher benefits for the unemployed at various meetings with Labour ministers during 1975. Similar demands were made by the CPAG, who seemed to realise that unemployment had increasingly become a cause of family poverty. These might have been factors influencing the decision to provide a higher proportional increment for short-term benefits compared with long-term benefits in November 1976. Another reason might have simply been the realisation of the consequences of the principle of linking long-term benefits to the rise in earnings and short-term benefits to the movement of prices. The gap between these benefits had widened considerably since 1974 and even an equal increase in proportional terms, or indeed a modest one in favour of short-term benefits, led to a further widening of the gap of benefit levels in favour of long-term benefits.

But a campaign against 'scroungers' and unemployed 'layabouts' had started in the summer of 1976 which provided an adverse background for a more favourable treatment of unemployed claimants. Public attitudes against the unemployed were fostered by parts of the press and also some Conservative MPs, maintaining that there had been an increase of alleged cases of fraud and abuse of benefits. The campaign received a fresh impetus when the new benefit rates, favouring short-term benefit rates slightly, came into effect in November. It seems doubtful as to whether the decision to increase short-term benefits by a

higher margin than pensions, made early in 1976, would have been considered later in the year. In fact with the uprating in November 1977 Labour returned to the principle of providing higher proportional increases for long-term benefits.

However, demands to reduce benefits for the unemployed were also made by (parts of) the Labour government at the end of 1976. It was, more or less openly, debated as to whether unemployment benefits should be taxed in the future. Similarly, the search for further opportunities to cut public expenditure, after the IMF loan had been accepted, led to proposals to restrict unemployment benefits for occupational pensioners and students. These plans were attacked by the TUC, and the NUS, and had to be abandoned after criticisms by MPs from all parties. It is interesting to note that intentions to cut insurance benefits directly were just as difficult to enforce in the mid 1970s as they had been in the 1960s. Again, the position of the unions seems to have been significant - as it was throughout the whole period between 1974 and 1976. I will come back to this and other points in the comparative assessment.

West Germany

1. Economic, political and legislative developments after 1969

Economically the period after the introduction of the AFG in 1969 was very prosperous in West Germany. Growth rates in 1969 and 1970 exceeded 7% and 5% respectively and the main concern for the government was to avoid an overheating of the economy. There were relatively high wage gains but, by West German standards, also high annual inflation levels of over 5% after 1970. Thus, after the collapse of the Bretton Woods system of fixed exchange rates in 1973, the *Bundesbank* started to introduce more restrictive monetary policies to ease the inflationary pressure. These however were counteracted by a sharp increase in oil prices later in the year. This and higher prices for raw material which hit all industrialised countries in the mid 1970s led to a growing economic crisis in West Germany.

In the 1969 election the SPD gained more than 40% of the votes for the first time since World War II. Together with the liberal FDP, the Social Democrats formed a coalition government, with Willy Brandt as Chancellor, while the opposition CDU remained the strongest party in the *Bundestag* (see Appendix A). Traditionally the new coalition partners had more to differ over in social

policy terms than they had in common. However, economic prosperity and a programmatic re-orientation of the FDP from former economic liberalism towards 'social capitalism' (Michalsky, 1985, p. 67) allowed a working compromise between the two parties. Cooperation was also facilitated by allowances for specific FDP clientele (self-employed, professionals) within a broad SPD social policy programme, which contained trade union demands for an expansion of the social security system, preventative health measures and improved labour relations. A second pension reform, improvements in health care provision and the index-linking of a number of social policy benefits were major reforms implemented after 1969 which were also welcomed by the opposition.

Influenced by Willy Brandt's *Ostpolitik*, the SPD managed to increase their share of the votes to just under 46% in the 1972 general election and became the strongest party in Parliament (see Appendix A). The SPD/FDP coalition continued although the strength of the FDP (which increased its share of the votes to 8.4%) reduced its willingness to cooperate with the SPD as eagerly as before 1972 (Michalsky, *ibid.*). However, throughout the period between 1969 and 1974 as a whole, a number of so-called domestic reforms were implemented most prominently in the fields of education, social security, taxation and workers' co-determination (for an overview see Schmidt, 1978). As mentioned earlier, the introduction of these policy initiatives was facilitated by economic growth. This was in line with the SPD's programmatic policies formulated during the time of the 'Grand Coalition' (see Chapter 5), which based welfare state expansion on additional economic growth rather than on a redistribution of existing resources at the expense of the better off.

Unemployment after 1969 remained below 1.5% (270,000) up to the end of 1973. However, in the second half of the following year it rose sharply to over 900,000 (4.3%). Although an increase of joblessness was expected in 1974, due to the effect of the world economic recession, the steep rise of unemployment came as a surprise to the government. With support from the opposition too, the coalition responded with expansionary policies in 1974. An 'economic and employment' programme (*Programm stabilitätsgerechter Aufschwung*) of 600 Million DM of additional public spending to promote economic growth and stability was implemented (see Harten and Flitner, 1980, p. 28).

With regard to unemployment compensation, no major changes were introduced between 1969 and 1974. In line with the objectives of the AFG, the right to retraining and further training was increasingly taken up, which

subsequently led to some restrictions in 1972 in order to reduce expenditure. In general however the *Bundesanstalt* coped with the additional demand. Small annual deficits between 1970 and 1972 reduced the overall reserves but in 1973 there were still large savings (see Appendix B, table 2). In accordance with a stipulation from 1969, the government presented a report (*Arbeitsförderungsbericht*) concerning a review of the AFG mainly with regard to its funding regulations (BT-Drs., 1973). As outlined in the previous chapter, the *Bundesanstalt* as well as the unions had argued in 1969 that the burden of funding the *Bundesanstalt* should not entirely be borne by contributors since some employment services were available not only to contributors but also to other groups. The government conceded that there had been people participating in programmes who were not contributors to the *Bundesanstalt*. But this group was very small, it was argued, while the vast majority of recipients had either been contributors or would be in the future (ibid., p. 60). Also, the surplus in the *Bundesanstalt* budget was expected to increase steadily until at least until 1977. Thus, it was argued, there were 'no compelling' reasons to alter the financing regulations of the AFG.

After 1969 some, although not very concrete, considerations with regard to unemployment insurance were made. The introduction of more favourable conditions for benefit entitlement were twice contemplated (see *Sozialbericht*, 1970, p. 18; 1973, p. 11). Perhaps due to the low level of unemployment however, no immediate change was apparently regarded as necessary. This situation changed in 1974 when unemployment started to increase and sections within the Ministry of Labour regarded benefit improvements a sensible move with regard to economic (consumption function of benefits) as well as social policy considerations. (see *Bulletin*, 1974b, p. 658). Consequently the *Bundesanstalt* widened the coverage of insurance benefits by making conditions for access to entitlement to *Arbeitslosenhilfe* less stringent. The standard qualifying condition of 10 weeks insured employment could be substituted by other forms of activities, such as military service or self employment. Similarly, the receipt of social security benefits due to medical reasons for more than 26 weeks became regarded as equivalent to ten weeks of insured employment. Finally, school leavers from institutions of further education (vocational schools, colleges, universities etc. - but not secondary education) became eligible for the receipt of *Arbeitslosenhilfe* provided they had been attending courses for at least half a year (see Schmidt, 1974). Hermann Buschfort (then Parliamentary

Secretary at the Ministry of Labour) argued that an equal status for these groups with that of unemployed wage earners seemed reasonable (BT-Drs., 1975a).

These decisions might have been influenced by a drop in the share of registered unemployed in receipt of either *Arbeitslosengeld* or *Arbeitslosenhilfe* which had declined from 75.8% in 1970 to less than 65% in 1973 (see Chapter 4, figure 4.2). In the two following years the share rose again to 76% in 1975 (see Wiese, 1985, p. 133). While this increase might simply have been the result of more people entering the ranks of the unemployed (see Chapter 4, figure 4.7), the less stringent conditions for receiving *Arbeitslosenhilfe* might have been partly responsible, considering the scope of the rise in the share of unemployed in receipt of *Arbeitslosenhilfe* after 1973.¹

Another favourable improvement for unemployed benefit claimants was decided upon also in 1974 but introduced in January 1975. As outlined in Chapter 5, in 1967 the average rate of *Arbeitslosengeld* was fixed at 62.5% of the former net income with an additional family allowances for claimants with children. This was changed in 1975 when a major income tax reform, including a universal child benefit system, was introduced. Without going into detail, concerning unemployment benefits, a standard rate of 68% of former net earnings (58% in case of *Arbeitslosenhilfe*) replaced previous rates of 62.5% (52.2%) plus family addition and child allowance. However, unemployed married persons were still better off due to comparatively lower tax deductions when in work compared with single earners and thus higher net earnings (which remained the basis for the calculation of benefit rates). The new rates increased benefit levels for the majority of claimants (see BT-Drs., 1975c, p. 3).

With regard to the new unemployment benefit levels, the government maintained that the twofold aim of preventing too low a drop in living standards of claimants as well as the preservation of the incentive to take up employment as an economically rational decision was guaranteed with the new benefit rates (BT-Drs., 1974, p. 32). Furthermore it was argued that the increase in benefit levels should have reduced the number of those unemployed who, normally due to a combination of low market incomes and large families, had to resort to the locally financed and administered *Sozialhilfe* (BT-Drs., 1975c, p. 2).² The

¹ There were 40,127 registered unemployed (6.9% of all) receiving *Arbeitslosenhilfe* in 1974 compared with 110,175 (10.2%) in 1975 and 164,476 (15.5%) in 1976 (Wiese, 1985)

² The number of recipients of *Sozialhilfe* (see Chapter 4) had increased since 1974, but exact statistics concerning the number of unemployed who additionally or solely applied for *Sozialhilfe* did not exist before 1978 when the first annual survey of *Sozialhilfe* recipients was conducted. Because of methodological reasons, even these figures are not absolutely accurate (see Chapter 3 and Appendix, table 2). However, in 1978, 76,000 households pinpointed unemployment as the main reason for

CDU/CSU and the *Bundesrat* (the second chamber in West Germany, representing governments of the *Länder*) generally welcomed the improvements (see Bt-Verh., 1974, p. 9398). Finally, it should be noted that not only benefits were increased and qualifying conditions eased in 1974 but also allowances for further training and retraining were raised to 90% of the previous net income.

It seems safe to argue that the unexpectedly steep rise in unemployment in the second half of 1974 contributed to and speeded up these improvements for the unemployed. The extension of the coverage of *Arbeitslosenhilfe* especially, but also the improvements in unemployment benefit levels (although partly the result of administrative simplifications after the introduction of the income tax and child benefit reform, see Büttner and Kühl, 1975) can be interpreted as an initial response to the rise in joblessness. From the implementation of the AFG until 1973 the annual number of job vacancies had always been at least twice the number of job seekers. This changed quickly during 1974 when average annual unemployment rose to 580,000 and the number of vacancies dropped to 315,000 (Seifert, 1984, p. 127). The social and political implications of the steep increase in joblessness were unpredictable. Unemployment replaced inflation as the major social problem in *Länder* elections during 1974 (see *Der Spiegel*, 42, 1974) and in a newspaper interview, Hans Apel, then Minister of Finance, argued that the 'extended system of social security was the main reason which prevented social unrest' (*Die Zeit*, 5 September, 1975). To sum up, the uncertainty of political and social risks of mass unemployment and the still dominant expectation that benefits would function as a 'built-in economic stabiliser' seem to have been major influences in the introduction of easier access to *Arbeitslosenhilfe* and the improvement of unemployment benefit rates at the beginning of the economic crisis in the mid 1970s in West Germany.

2. The *Haushaltsstrukturgesetz*

In May 1974 Helmut Schmidt (SPD) succeeded Willy Brandt as Chancellor. He symbolised the end of the period of domestic reforms and welfare expansion and the beginning of an era of a more cautious approach to public expenditure and economic policy making. However, in his inaugural speech he remained in line with the previous Keynesian response to economic problems when he announced an additional public expenditure of 900 Million DM on investment in infrastructure in regions with structural disadvantages as a response to the

applying for *Sozialhilfe* (16.6% of all households in receipt of the benefit, see Heinelt et al., 1987, p. 277). See Appendix B for the increase of *Sozialhilfe* recipients in the 1980s due to unemployment.

downturn in production (*Bulletin*, 1974a, p. 600). This was influenced by the assumption that economic growth and full employment would be restored quickly; an expectation shared by all parties in 1974. The rate of inflation was over 7% in 1974 but, as Helmut Schmidt emphasised, this was low in comparison with West Germany's economic competitors. Also, unemployment, although rising, was not expected to reach more than 2%.

However, in September 1975 Helmut Schmidt stated that for most of the year the government had believed that 'if not the world economy, then at least the domestic economy had reached its deepest point of recession. This must now clearly be described as an error.' (BT-Verh., 17 September 1975, p. 12885). It had become obvious, he argued, that there was now a definite relationship between domestic and foreign economic development as indicated by inflation rates, changes in economic growth levels etc.. The reason behind the scope of the deterioration in economic performance, with a forecast loss of exports in 1975 equalling 4% of GNP, was 'exclusively' an 'imported recession' (*ibid.*, p. 12886). The Federal government had attempted to counteract the slowdown of production, but there was not sufficient means to compensate for this unexpected scope of the loss of exports (*ibid.*, p. 12887).

In fact, judged by conventional indicators, the economic situation in West Germany had worsened considerably during 1975 (see Chapter 4, figure 4.3 to 4.6). While there was still a slight increase of economic growth in 1974, in 1975 GDP actually contracted. Inflation decreased slightly from 7% to 6% (OECD, *Economic Outlook*, 1985, p. 181) but unemployment rose even further to an annual average of 1.07 million in 1975. The Council of Exports issued a special report in August 1975 (BT-Drs., 1975c) and the government followed its recommendation to introduce an immediate public expenditure programme in order to stimulate investments but also, in the medium term, to reduce the scope of the deficit of the Federal budget. This was the first sign of a move away from a Keynesian response to economic downturn. The economic policy strategy was twofold: to accept the high public deficit in 1975 but to start decreasing it from 1976 onwards (BT-Verh., 15 October 1975, p. 13319).

An expenditure programme of 5.75 billion DM was introduced, the major elements of which were investments in structural and civil engineering, local infrastructure and inner city development (Harten and Flitner, 1980, p. 31). However, the programme added to a record public debt of 64 billion DM in 1975 and the coalition, especially the FDP but also large parts of the SPD, did not intend to increase its 'deficit spending' any further. Instead, a reduction of the

public deficit was planned as soon as there were signs of an increase in production. The idea was to give more scope and better conditions for private investment. A relief of capital markets from public borrowing was also regarded as necessary to avoid inflationary pressure. The simultaneous occurrence of a slowdown in production and a relatively high level of inflation (stagflation) started to have an effect on the government's confidence in the practicality of Keynesian crisis management in the mid 1970s. Within the coalition, private investments became increasingly regarded as the strategic variable for a recovery of the economy.

Thus, when there was a slight rise in production in the second half of 1975 the coalition reacted swiftly with the introduction of the *Haushaltsstrukturgesetz* (Budget Consolidation Act) which came into effect in January 1976. Its aim was simply to increase receipts and decrease public expenditure. The consolidation of the *Bundesanstalt* household became the major target. The reserves of the *Bundesanstalt* had been reduced to 3 billion in 1974 and subsidies of 3.2 billion DM from the Federal budget to the *Bundesanstalt* were expected in the forthcoming year. As explained in Chapter 4, the government is required, due to a legal obligation laid down in the Basic Law, to subsidise the *Bundesanstalt* and to balance its budget, in case deficits occur. However, the scope of the subsidy was based on an average annual number of 730,000 unemployed. Since the real number turned out to be above one million, the *Bundesanstalt* deficit in 1975 amounted to more than 8 billion DM. Appendix B (table 2) shows that the deficit in the *Bundesanstalt* budget was mainly caused by increased payments of *Arbeitslosengeld*, which represented 7.8 million DM (43.6%) of all expenditure in 1975 compared with 3.55 million DM (34.3%) in 1974.

The *Haushaltsstrukturgesetz* stipulated savings of just under 8 billion DM of public expenditure in 1976 and over 20 billion DM in the years up to 1979. In line with a generally agreed principle to impose cuts where the highest deficits had occurred,¹ the AFG was the biggest item on the list of savings (with 4.8 billion in 1976) in order to reduce future subsidies from the Federal government (see BT-Drs., 1975d, p. 31). Both the government and the opposition agreed to the principle that subsidies from the Federal budget should only be made in times of crisis and for a limited period of time. In general and in the medium term, expenditure by the *Bundesanstalt* should be met by contributions to the system. Thus, in times of financial pressure, the consolidation of the budget would have

¹ This principle was mentioned by a number of interviewees as important in the discussion on options for cuts in spending.

to be made within its boundaries either by increasing contribution rates, by a reduction in expenses, or a combination of both. Within the AFG, the procedure was twofold: to increase receipts (contributions) and to limit expenditure (spending programmes).

Thus, contribution rates for the *Bundesanstalt* were raised from 2% to 3% of the monthly gross income (1.5% for both employees and employers), which brought about an increase of public receipts by 3.8 billion DM in 1976. Of course, higher contributions could have been raised more so that no cuts would have been necessary in the AFG. But this was rejected by the FDP and also the 'economists' within the SPD. Higher contribution rates were regarded as equivalent to higher taxation rates, making production more costly. Since it was hoped that an economic upturn would be generated by an increase in private investment however, too heavy a burden on companies had to be avoided. Higher contributions would also have reduced net incomes further, and thus was opposed by the unions. Instead, the DGB proposed a labour market levy on self employed people and public employees, but this had been blocked in 1973 when the government stated that there was no need to reform the funding system of the *Bundesanstalt* (see above) and in 1975 the FDP, but also parts of the SPD, were against the introduction of a levy.

Walter Arendt (SPD), the Minister of Labour and Social Affairs between 1969 and 1976, was, according to Webber (1982, p. 264), against a rise in contribution rates. Given the government's determination not to increase public borrowing any further however, the argument was that there was no real choice if substantial savings were to be made. The other major cost-saving option would have been a reduction in unemployment benefit levels. But rates had been increased just a year earlier (see above). More importantly, the SPD-led government was dependent on the continuous cooperation with the unions who expressed their strong opposition to any cuts in unemployment benefit levels. This position was in line with traditional union priorities. As outlined in earlier chapters, unemployment benefit rates (as well as other insurance benefits) have traditionally been strongly defended by the unions. Insurance benefits have been regarded as 'wage-replacement' benefits based on contributions which implied a legal right to the payment. Thus, reluctantly, the DGB agreed to cuts in training programmes and to higher contribution rates (see BT-Verh., 10 December 1975, p. 14336), which were regarded as the 'lesser evil' (Duda, 1975, p. 322).

The opposition parties disagreed with the reduction of training allowances, which was the most controversial aspect of the cuts. Allowances for participants

of courses of retraining and further training were reduced from 90% to 80% of the previous net income.¹ There were other cuts within the AFG programmes, and savings were expected to amount to 780 million DM in 1976.² Minor savings were achieved by concentrating training programmes more on contributors to the *Bundesanstalt*. Egon Lutz (SPD) maintained that an amendment regarding this aspect of the AFG had been planned irrespective of the *Haushaltsstrukturgesetz*. He argued that changes had been decided upon in order to cut 'wild growth', unjustified privileges and 'exaggerated demands'. The AFG had been conceptualised under exceptionally favourable economic conditions. Since then some participants had abused the opportunities offered within the AFG for 'permanent training', which had to be stopped (BT-Verh., 6 November 1975, p. 13771). Indeed, the issue of 'abuse' in relation to training but also to benefit receipt became a central aspect of legislative changes in 1976 and thereafter.

3. 'Abuse' of benefits and of training programmes

As in Great Britain, a growing public concern over 'workshyness' occurred also in West Germany in the mid 1970s and this coincided with a high and stable level of unemployment and a simultaneous decrease of average wage levels. The growth of real wages was reduced to 2.4% in 1974 and to 0.6% in 1975, while in 1976 there was a decrease of average real wages of 0.1% (Hoffmann, 1987, p. 351). Wacker and Paul (1975, p. 339) identified three phases of public attitudes towards the unemployed from the beginning of the economic crisis in West Germany. Between August and December 1973 unemployment rose only gradually and there was a general expression of compassion and sympathy in the press for those who were made redundant. As outlined earlier, unemployment became a major political issue in *Länder* elections and benefit improvements were implemented in 1974. Gradually however, while unemployment was still increasing, the issue was transferred from the front pages of the newspapers to the business pages. There was a general appreciation that the unemployment insurance system was able to provide adequate benefits for those affected by joblessness. Also, from the government's point of view, the insecurity about potential implications of high unemployment with regard to social peace and

¹ According to the new legislation, only those participants, who were either unemployed or 'threatened' by it, continued to receive the higher rate. For them training was defined as 'necessary' while all other cases, where training was regarded as 'expedient'.

² For a more detailed analysis of the reduction of 'active' elements within the AFG between 1975 and the early 1980s, see Webber (1982 and 1984, ch. 6) and Pfriem and Seifert (1979).

political stability eased gradually. From 1975 onwards, against a background of by then high and stable unemployment, economic difficulties and high public debts, voices became more prominent, maintaining that the living standards of some of the unemployed were too high and some 'wild growth' must be cut. The traditional distinction between the 'real' and the 'false' unemployed became more pronounced in the press (Wacker and Paul, *ibid.*, p. 340).

Indeed, by 1975, a growing public mood against unemployed recipients of benefits became apparent. In newspaper articles it was maintained that some unemployed were 'enjoying a pleasant extra holiday' (*Frankfurter Allgemeine Zeitung*, 10 July, 1975). Employers argued that they were not able to find 'suitable applicants' for vacant jobs, while a 'not insignificant part of the unemployed ...(were leading) ...a layabout's life at the expense of the jointly responsible community of contributors to the unemployment insurance scheme' (*Der Arbeitgeber*, 28, 1976, p. 136). In an annual survey 49% of the respondents in 1975 and 1976 believed that many of the unemployed did not really want to work against 45% who thought that only a few people were not interested in employment. In 1977 the figures were 57% against 40% (see Peter, 1989, p. 46). Parliamentary questions with regard to alleged cases of 'workshyness' became more frequent from 1976 onwards (see Patzelt, 1984, p. 52, footnote 113).

As outlined earlier, the government used the debate on 'undeserving claimants' as a justification for measures implemented as part of the *Haushaltsstrukturgesetz* 1975 which concentrated eligibility for training allowances more on contributors to the *Bundesanstalt*. But similar arguments were applied also with regard to particular groups of unemployment benefit claimants. Firstly, access to *Arbeitslosenhilfe* became more restricted. As illustrated earlier, in 1974 students who had completed or left further education, became entitled to the benefit. In the draft of the *Haushaltsstrukturgesetz* it was stated that, 'in practice it has become obvious, that the included circle of persons had been defined too widely' (BT-Drs., 1975d, p. 53). From 1976 onwards only unemployed graduates, who had been in paid employment for at least half a year before the start of their course, remained eligible in the case of becoming unemployed. Apparently the idea of 'equivalent activities' to employment was dropped, at least as far as further education was concerned, only just over a year after it had been introduced. The expected savings amounted to 60 million DM in 1976. In relation to other cuts this was small and it seems reasonable to assume that this amendment to the AFG was not primarily made out of financial

considerations but influenced by a changed labour market situation. I will illustrate this point after the discussion of the second amendment.

As outlined in Chapter 5, in 1969 the term 'suitable employment' was introduced in the AFG regulations. It referred to types of employment offered by the employment service, which an unemployed person was expected to accept or to risk losing the right to benefit payment. In 1975 it was maintained that the term 'suitability' had to be made more precise in order to give clearer guidelines to local employment officers. The amendment stipulated that changing labour market conditions would have to be taken into account for a weighing up the interests of the unemployed against those of the contributors to the *Bundesanstalt* (see Hoppe, 1976). It was emphasised that a type of offered employment could not be considered unsuitable just because it was not equivalent to former employment, the payment was comparatively less, the distance to work was longer or the general conditions were less favourable than before. Individual circumstances would have to be taken into account however in order to avoid hardship inflicted. The savings from the 'more precise definition' of suitability were expected to be 50 million DM (BT-Verh., 6 November 1975, p. 13744). Again, this was not very significant by comparison and Manfred Baden, then head of the labour market and unemployment insurance division within the Ministry of Labour, spelled out the wider background which was related to an increase of labour discipline. A changed situation in the labour market, he argued, has led employers to be more selective in their employment practices and 'the one or the other unemployed person will have to be prepared to reconsider his expectations ... (and) ... also to regard employment as acceptable even if it is not as interesting, not as well paid and not as easily accessible as the former one' (Baden, 1975, p. 549).

The labour market situation had in fact altered considerably by 1975. In February there were 1.2 million people registered as unemployed against 240,000 reported job vacancies (Pfriem and Seifert, 1979, p. 73). The reversal of the relation between labour supply and labour demand occurred unexpectedly, as can be illustrated by a Ministerial statement from 1973, maintaining that 'the demand for employees influences the situation on the labour market and represents a long term bottleneck for economic development' (*Sozialbericht*, 1973, p. 7). However, the political response to the excess supply of labour followed suit when the government introduced a total stop of additional recruitment of *Gastarbeiter* in November 1973. Their number declined from 2.5 million in 1974 to below 2.1 million in 1976 (Seifert, 1984, p. 127) despite the

ongoing practice of unification of families and an increasing number of *Gastarbeiter* from the second generation. For demographic reasons the German labour force potential rose from 1974 onwards. Against this background the government attempted to reorientate labour market policies. Manfred Baden argued that both employers and unemployed had to take the changed economic situation and the resulting adaptation of the labour market policy into account (Baden, 1975, p. 149). Employers were asked to 'offer more part-time employment and to hire more older and handicapped *German* unemployed', while 'a higher degree of local and occupational mobility was expected from some unemployed' (ibid, p. 149, my emphasis).

To sum up the discussion so far, the main aim and justification of the *Haushaltsstrukturgesetz* was to decrease public deficits. Cuts were introduced where the highest deficits had occurred. This was within the *Bundesanstalt* budget and mainly due to increased payments for *Arbeitslosengeld* and *Arbeitslosenhilfe*.¹ The government's intention was to reduce subsidies to the *Bundesanstalt*, to which it was legally required. A reduction of unemployment benefit levels would have saved a significant amount of expenditure. However, benefit levels had been increased just one year before and their preservation was strongly defended by the unions. If anything the DGB preferred higher contribution rates as the 'lesser evil'. Thus, the centre of the cuts became 'active' labour market programmes, justified by the need to cut 'wild growth' and to correct injustices. The second aspect of the *Haushaltsstrukturgesetz* was to adapt the AFG programmes to a changed constellation in the labour market. With regard to unemployed benefit claimants, regulations were introduced with the intention of increasing labour mobility. But unlike 1967 and 1969, when there was a shortage of labour, in 1976 this meant mainly 'downward mobility', to be achieved through the introduction of more coercive elements within the system of income support for the unemployed, affecting certain segments in particular (job starters, longer term unemployed). These policies continued in the following years.

¹ *Arbeitslosenhilfe* is actually paid in total out of the Federal budget, thus from general taxation. But, due to the adverse financial situation of the Federal budget and high reserves of the *Bundesanstalt* budget in 1967, the Government decided that the *Bundesanstalt* had to finance *Arbeitslosenhilfe* up to 1975, for those unemployed people who had exhausted their entitlement to *Arbeitslosengeld*. The *Haushaltsstrukturgesetz* stipulated that this was to be continued up to 1981.

4. An improved *Bundesanstalt* budget and the issue of 'problem groups'

The SPD/FDP coalition was maintained following the general election in October 1976. But their majority in the *Bundestag* was reduced from 42 seats to 10 due to a decrease in the share the votes for the SPD to 42.6%, which, with the slightly reduced FDP proportion of 7.9%, just exceeded the 48.6% for the CDU/CSU (see Schmidt, 1978, p. 217). The years after the introduction of the *Haushaltsstrukturgesetz* saw an economic recovery in West Germany with a rise in economic growth (see Chapter 4, figure 4.3), while inflation declined (*ibid.*, figure 4.4). Federal subsidies to the *Bundesanstalt* in 1976 amounted to less than half of the predicted 6.1 million DM (Webber, 1982, p. 265) and by 1977 the *Bundesanstalt* budget was in surplus again.

Thus, the *Bundesanstalt* budget improved more quickly than was expected in 1975. This was partly due to a lower payment of *Arbeitslosengeld*, which was caused by a decreasing proportion in the registered unemployed who were in receipt of it in 1977 (54.1%) as compared with 1975 (65.8%) (see Wiese, 1985, p. 133). But stricter regulations and lower grants for people on training and retraining courses also had an effect. While in 1975, 3.3 billion DM (18.5% of the overall expenditure by the *Bundesanstalt*) was spent on the 'promotion of vocational education', by 1977 the amount dropped to 2 billion DM (13.1%) (see Appendix B, table 2). This is reflected in the drop of the total number of 271,000 trainees who started courses in 1975 compared with 152,000 in 1976 (Kühl, 1990, p. 31). The share of those who had been unemployed before the start of a course increased slightly from 31% in 1975 to 33% in 1976 and 39% in 1977 (Kühl, *ibid.*) but the absolute annual number of unemployed who started training actually decreased from 84,000 in 1975 to 53,000 in 1977 (see Webber, 1982, p. 264). Thus the government's intention to concentrate resources more on people for whom training was considered 'necessary', was only partly successful. This might have influenced the Ministry of Labour to implement a decree in December 1976 which made access to training easier again (see Pfriem and Seifert, 1979, p. 76), facilitated by the *Bundsanstalt's* positive budget situation which was expected to improve further.¹

The development in the budget of the unemployment insurance fund stood in sharp contrast to the continuing problem of mass unemployment. The annual

¹ This obviously also influenced the Government's decision to use the *Bundesanstalt* fund for a contribution to the consolidation of the public old age pension fund. From 1979 onwards the *Bundesanstalt* was ordered to pay monthly contributions to the pension fund out of its reserves on behalf of recipients of unemployment benefits.

average unemployment level stayed above 1 million between 1975 and 1977 (see Chapter 4, figure 4.5). As a response, the government started the first of a number of 'special programmes' in 1976 which were aimed at improving the integration of so-called problem groups in the labour market, mainly the longer term unemployed, women, the elderly, salaried workers, severely handicapped and non-qualified young people (see *Bulletin*, 1976b, p. 1171).¹

However, the succession of special programmes directed at 'problem groups' in the labour market remained insufficient, as far as the overall level and the social structure of unemployment was concerned. This is shown in the table below. The government was not prepared to increase public spending further however, despite a reduction in the public debt from over 60 million DM in 1975 to 42 million in 1976 and to 28 million in 1977 (Harten and Flitner, 1984, p. 24). While economic performance had improved after 1975, a decoupling of production and employment gradually became a feature of West German economic development. As in Great Britain, the West German government's major objective after the mid 1970s was to sustain economic growth and to keep inflation low rather than to concentrate on a substantial reduction in unemployment levels. This became apparent in January 1977 when the Chancellor dismissed suggestions that the employment crisis could be overcome by adopting Keynesian policies of 'deficit spending' (see Harten and Flitner, 1984, p. 24).

Table 6.2: unemployment rates and proportions of 'problem groups' between 1974 and 1978

	unemployment rates						proportion of unemployed who are:	
	(1) all	(2) men	(3) women	(4) under 25 years	(5) over 25 years	(6) 55 to 65 years	(7) over 1 year unemployed	(8) severely handicapped
1974	2.6	2.2	3.1	2.8	1.8	11.7	5.0	2.2
1975	4.7	4.3	5.4	5.2	3.4	10.2	9.6	3.7
1976	4.6	3.9	5.8	4.8	3.0	11.8	17.9	4.4
1977	4.5	3.7	6.0	5.0	3.0	11.9	18.7	5.0
1978	4.3	3.4	5.8	4.5	2.9	13.3	20.1	6.3

Sources: columns 1 to 5 and 7: Rose et al., 1988, p. 40, table 4.4; p. 42, table 4.6; p. 52, table 6.3; p. 54, table 7.1; column 6: Seifert, 1984, p. 146, table 14; column 8: based on Klees, 1978, p. 373 and Wiese, 1985, p. 131, table 2

¹ For an overview of the various programmes see Kühl, 1990, p. 20; and Harten and Flitner, 1980, p. 26/27.

5. Further encouragement of downward mobility

As outlined earlier, in 1975 the West German government made use of more or less open attacks by the press on alleged cases of benefit abuses and 'workshyness'. It continued policies in March 1976 when the *Bundesanstalt* introduced a decree involving stronger control measures for the unemployed, with the aim of 'testing' the willingness to work of those in receipt of unemployment benefits (see Albrecht et al., 1977, p. 284). During 1977 a 4th Amendment Act to the AFG was drafted which came into force on 1 January 1978. Against the background of about one million unemployed and an annual number of more than 200,000 job vacancies, and various 'unsuccessful employment programmes', the general aim of the Act was to improve procedures of arranging employment which 'in the current labour market have proved to hinder mobility' (BT-Drs., 1977b, p. 12). It was maintained that in May 1977 only 17% of the registered unemployed had been prepared to move to another area to take up employment and that there was 'little willingness to take up less well paid employment' (BR-Verh., 25 November 1977, p. 331).

There were some favourable changes included in the Act such as better conditions in relation to further training and retraining (for details, see Siegers, 1978). This was most probably influenced by the sharp decrease in the number of new trainees after 1975, which was mentioned earlier. However, there was also the 'positive' side effect of an optical improvement of the unemployment statistics, since trainees are excluded from the unemployment count.

However, most of the amendments had negative effects for benefit claimants. Firstly, an imposed period of benefit suspension (in case a claimant had left a job 'voluntarily') was made into a disqualification period again, as it had been defined before 1969 (see Chapter 5). Thus, a period of benefit disqualification would reduce the overall duration of benefit entitlement. This change was made in order to 'increase the disadvantages for the unemployed, which occur from a refusal to accept suitable employment, ...(it).... should improve the endeavours of the employment offices to arrange employment' (Siegers, 1978, p. 106). The number of imposed benefit suspensions had been increased after 1975. However, as table 6.3. suggests, this was hardly the effect of rising unemployment in 1975 but rather a likely effect of the stricter interpretation of the 'suitability' regulation implemented in the *Haushaltsstrukturgesetz* in January 1976, since the number of suspensions as a share of the number of benefit

claimants (*Arbeitslosengeld* and *Arbeitslosenhilfe*) only started to rise after 1975 when the proportion of benefit claimants to vacancies remained stable.

Table 6.3: benefit suspensions, benefit recipients (*Arbeitslosengeld* and *Arbeitslosenhilfe*), and vacant jobs (by thousand) between 1974 and 1978

	1974	1975	1976	1977	1978
(1) benefit suspensions	22	44	62	71	68
(2) as % of benefit recipients (1)	0.47	0.45	0.66	0.82	0.84
(3) benefit recipients (annual average)	392	817	779	720	673
(4) vacant jobs	315	236	235	231	246
(5) 4 as % of 3	80	29	30	32	37

(1) calculated as average annual number of benefit recipients divided by one-twelfth of all periods of suspension

Source: Webber, 1982, p. 264, table 4

Another change affected job starters. Before the 4th Amendment Act, benefits for unemployed leavers of apprenticeships, or similar types of training, had been calculated on the basis of the standard wage a person could expect in his or her occupation. In 1977 the government argued that this had often resulted in benefit levels above the previously earned income during the apprenticeship, which had an 'adverse effect on job search activities' (Siegers, 1978, p. 106). With the new Act, the basis for the calculation of *Arbeitslosengeld* (or *Arbeitslosenhilfe*) was reduced to 75% of the expected standard wage. Also, it was ordered that unemployed people had to contact their local employment office more often, yet at least every three months, for advice on arranging employment.

To sum up the previous two sections, while the overall level of unemployment did not decrease significantly after 1975, its social structure and perception as a political and social problem changed gradually. The share of the 'problem groups' rose (see above). The government's attempt to counteract this by the introduction of 'special programmes' in order to improve the integration of these groups into the labour market largely failed and public expenditure packages designed to stimulate increased employment, remained insufficient also. There was no intention of increasing public expenditure further. Against the background of stagnating levels of unemployment and decreasing average

wages, public concern about allegedly increasing cases of 'workshyness' among the unemployed was growing. The SPD/FDP coalition turned on the unemployed themselves, maintaining that their behaviour was a contributory factor in the failure to reduce unemployment. Thus, selective measures were introduced, directed at unemployed benefit claimants, in order to promote their 'willingness to take up lower paid employment or less favourable working conditions' (*Bundesarbeitsblatt*, 1/2, 1978, p. 19).

6. Conclusion

No major changes were introduced to the structure of the system of income support for the unemployed in West Germany in the years between the implementation of the AFG and 1974. The economic situation after 1969 and the average annual number of job vacancies was at least twice as high as the number of registered job seekers. This changed rapidly in 1974. Between the end of 1973 and December 1974 the level of unemployment tripled. One response in 1974 was to widen access to *Arbeitslosenhilfe* for some of the unemployed who had not been in insured employment before becoming unemployed. Specified alternative activities were recognised as equivalent to paid employment as the general condition for the entitlement to *Arbeitslosenhilfe*. Later in the year, the level of *Arbeitslosengeld* was increased to a standard rate of 68% of the individual former net income (58% for *Arbeitslosenhilfe*).

It seems safe to argue that these improvements, although in the case of the level of *Arbeitslosengeld* and *Arbeitslosenhilfe* facilitated by a reform of the income tax system and the introduction of child benefit, were a reaction to the steep and unexpected rise in unemployment. After a long period of generally low unemployment since the 1950s, the potential impact of very high unemployment seems to have been perceived by the government as unpredictable as far as aspects of social peace but also its own political survival was concerned. Furthermore, a still relatively favourable financial situation for the *Bundesanstalt* in 1974 allowed more generous payments without implications for the government's budget. Also, high unemployment levels were not expected to last for a long period.

The economic crisis deepened however and, while in 1974 the immediate reaction was to revive investment and aggregate demand, economic policy making changed gradually from 1975 onwards. The simultaneous occurrence of a reduced output in production and rising inflation rates started to have an effect on the coalition's trust in the practicalities of Keynesian crisis management as an

appropriate way out of the economic recession. The strategy adopted in the second half of 1975 was therefore twofold. While another expenditure package was introduced in 1975, the combat of inflation and the consolidation of the Federal budget took over political priority from 1976 onwards.

Subsequent changes in the AFG demonstrated the implications of the particular institutional setting of unemployment compensation in West Germany. As a result of high unemployment, reserves in the *Bundesanstalt* budget were soon depleted and in 1975 the Federal government had to subsidise the *Bundesanstalt* for the first time. Because of the generally accepted principle to impose cuts where the highest deficits had occurred, the *Bundesanstalt* budget became the main target of the *Haushaltsstrukturgesetz*. Yet raising contribution rates to the *Bundesanstalt* sufficiently to balance its budget was not considered a viable solution especially by the FDP but also by SPD ministers who were reluctant to impose additional costs on companies. Thus, the procedure was twofold: to increase receipts by the introduction of moderately higher contributions and to decrease expenditure by curbing various sections within the AFG. However, while increased expenditure was mainly caused by higher expenses on unemployment benefits, the level and duration of unemployment benefits remained unchanged. Instead, the biggest cuts were imposed on vocational training by making allowances less favourable, access to training harder and also more concentrated on contributors to the *Bundesanstalt*. How can this be explained?

The major aim of the *Haushaltsstrukturgesetz* was to reduce Federal government's subsidies to the *Bundesanstalt*. While this might have been achieved by introducing even higher contribution rates this was not a serious proposition, because the government feared stifling the potential of an economic recovery. Thus, a moderate increase of contribution rates and partial cuts within the AFG seem to have been the optimal solution from the government's point of view. A reduction of unemployment benefit levels or a cut in entitlement periods was ruled out, not least with regard to securing the continuous support of the unions. The DGB's priority was to defend the level of unemployment benefits. In fact, as I will outline in the next section, direct cuts in the level of *Arbeitslosengeld* or *Arbeitslosenhilfe* was anathema for the DGB, which became even more obvious in the 1980s. Thus, cuts were introduced in the area of 'active' labour market policy programmes.

This illustrates the distinct relationship between expenditure on 'active' and 'passive' labour market programmes in West Germany. Both are elements of the

same regulatory and financial framework administered by the *Bundesanstalt*. As outlined earlier, in the 1960s, unemployment benefits had been used as an instrument in support of 'active' labour market policies at a time of a perceived need for greater labour mobility and a surplus in the *Bundesanstalt* budget. In the mid 1970s the labour market situation had changed however and, more importantly, the *Bundesanstalt* was in deficit. The 'competing relationship' (Schmid et al., 1987, p. 296) between 'active' labour market programmes and unemployment benefits with regard to the allocation of scarce resources became obvious. Under financial pressure, and the intention of the Federal government to consolidate the *Bundesanstalt* budget by introducing cuts, the choice was to curb labour market programmes, legitimised by the need for cutting 'wild growth', rather than unemployment benefits, which was perceived as politically more damaging.

However, while the general level of *Arbeitslosengeld* and *Arbeitslosenhilfe* remained unaltered, access to *Arbeitslosenhilfe* for students and other leavers of institutions of further education was once again made more difficult. Also, the 'suitability' criteria, affecting the right to refuse employment offered by the employment office without losing entitlement to benefits, became more stringent. Amendments did not affect the majority of the unemployed, who were back in employment after a relatively short time of unemployment, but rather parts of the unemployed at the 'periphery' (job starters, longer term unemployed) of the labour force. These cuts in relation to the income support system for the unemployed marked the beginning of more selective and coercive amendments thereafter.

It is possible to argue that after 1975 the income support scheme for the unemployed was used as an additional means to increase labour mobility once again. Cuts in the AFG were justified at first with the need to reduce public expenditure, but soon they reflected one side of the emerging 'dual' labour market policies with regard to specific groups of the unemployed. Various 'special programmes' were designed to assist a better integration of so-called problem groups into the labour market, while stricter sanctions made within the income maintenance system were directed against those who were believed to be downwardly immobile, i.e. allegedly refusing to accept lower paid jobs or worse working conditions. Thus, unlike in the 1960s, the changes made within the benefit system were not beneficial (improved benefit rights) but coercive (restricting benefit rights). Furthermore, their impact was not universal but selective, affecting specific groups of unemployed claimants. These changes

began with the *Haushaltsstrukturgesetz* and (against the background of continuous public concern about alleged cases of 'workshyness') the 4th Amendment Act, continued the trend.¹ Leavers of apprenticeships were sanctioned, as were unemployed people on whom a benefit disqualification period was imposed. Economic and social pressure was increased to facilitate the acceptance of lower paid jobs. From the government's point of view, these sanctions were not only relatively easy to introduce, since they did not affect the core of the unemployed and thus provoked only little protest, but had the positive side-effect of deflecting from the failure to reduce the level of unemployment more significantly.

Comparative Assessment

The discussion has shown that, as in the 1960s, both the economic development and the situation in the labour market were relevant influences on legislative changes (and non-decisions) with regard to unemployment compensation schemes in Great Britain and West Germany in the mid 1970s. Both countries were hit by the deepest recession since World War II, affecting their economies simultaneously. Public revenues from taxation and production decreased while overall expenditure, not least on unemployment benefits, had to be increased. Thus, political actions were decided upon within a similar, but in some respects also different context. Also, rather than conservative parties, Labour was in power in Great Britain and a SPD-led coalition in West Germany. However, in relation to unemployment compensation, respective welfare state settings in which unemployment benefit schemes operate help to explain policy outcomes.

In West Germany, the experience of unemployment as a political and social problem was very limited up to 1974. The level of unemployment had been very low since the early 1960s (with a short interruption in 1967). However, unemployment started to rise and tripled between the end of 1973 and the same time one year later. As shown, the social and political impact of this development seemed unpredictable for the SPD/FDP coalition, which, as an initial response to growing joblessness in 1974, decided to open access to *Arbeitslosenhilfe* for certain groups and subsequently to improve the benefit levels of *Arbeitslosengeld*

¹ There were other amendments in 1978 and 1979, which I will reflect on briefly at the beginning of the next chapter.

and *Arbeitslosenhilfe*, alongside Keynesian inspired economic policies and a background of a favourable financial situation for the *Bundesanstalt*. This policy was also welcomed by the opposition.

In Great Britain, not only the labour market situation but also the political context was somewhat different in 1974. Relatively high unemployment levels continued to be a feature in the British labour market after 1966. 1972 was the year with the highest post-war levels of job seekers (800,000). It induced a U-turn in the economic policies of the Conservative Party and consequently a decline in joblessness thereafter. The Labour Party regained power in February 1974 but its position in the House of Commons was weak so that another general election later in the year seemed inevitable. According to the February election manifesto, social security priorities were strongly influenced by the TUC. Accordingly the Labour government gave priority to the improvement of retirement pensions. Unemployment, which had declined since 1972/73, was apparently neither perceived as a political risk nor as a major cause of poverty in 1974. This might have influenced the decision to continue both the differential uprating of short-term and long-term benefits and the exclusion of the unemployed from entitlement of the latter. Both policies had been opposed by Labour MPs when in opposition.

Successive higher marginal increases for long-term benefits were justified also with the existence of the ERS, 'topping up' unemployment benefits despite the fact that only a minority of the registered unemployed were actually in receipt of the supplement. This had been deplored by individual Labour MPs when in opposition. It is interesting to note that the role of the ERS scheme had changed by the mid 1970s. As shown in the previous chapter, ERS was introduced in 1966 mainly as an instrument to support the 'redeployment' of labour. In the 1970s, the scheme appeared to function predominantly as a legitimisation for not improving unemployment insurance benefits. This seems to have been facilitated by the low priority given to this benefit since 1966 not only by both major political parties but also by the TUC (see below) and groups interested in social security affairs such as the CPAG. Already by the mid 1970s it had become apparent that the relatively 'alien' element of earnings-related unemployment benefits in Great Britain, which had been introduced under particular labour market conditions, had failed to gain wider support as a social security programme in comparison with other traditionally flat-rate benefits. As I will argue in the next chapter, this had implications for its abolition in 1982.

In 1975 the economic recession deepened further. The level of unemployment reached the one million mark in West Germany in February 1975 and in Great Britain in the summer of the same year. Although British inflation rates were about four times higher than German rates, both governments gradually deviated from Keynesian countercyclical economic policies and the fight against price rises became more pronounced in economic policy making. A reduction in public debts was increasingly regarded as a predominant condition for the improvement of private investments which came to be perceived as the pivotal factor for a recovery of production and employment. This perception was shared by opposition parties in both countries and the TUC as well as the DGB refrained from more serious demands for expansionary policies which might have threatened the continuation of existing governments. In both countries a public debate had started which questioned not only the feasibility of giving priority to achieving full employment as defined in the 1950s and 1960s but also its desirability. A large margin of unemployment, opposition parties argued, were in fact 'unemployable' and a larger margin of unemployment should be accepted. This perception was reinforced by growing public concern over allegedly increasing benefit abuses and 'workshyness', which, in turn, was reinforced by declining average wage levels.

However, after 1975 the neglect of successive inadequate upratings of unemployment benefits became more apparent in Great Britain. Demonstrations were held and the TUC, individual Labour Party members and other organisations such as the CPAG, gradually recognising unemployment as a growing cause for family poverty, started to urge the government to improve the income situation of the unemployed. On the other hand, public (and publicised) concern (strongly supported by individual Conservative MPs) about allegedly increasing numbers of unemployed claimants abusing the benefit system was at a height. Within a period of less than one year the government reacted to demands from both sides. In early 1976 it decided to increase short-term benefits by a higher margin than long-term benefits at the forthcoming uprating date later in the year. When the new rates came into force in November, the 'scroungerphobia' was fuelled even further and the Labour government introduced stricter control measures on unemployed benefit claimants and, a year later, returned to less favourable benefit upratings for unemployed claimants.

The motivation behind attempts to restrict eligibility rights to unemployment benefits for specific groups (students, occupational pensioners) at the end of 1976 might be regarded as having had a disciplinary aim, but financial

considerations seem to have been more relevant. Unlike in West Germany, unemployment was still rising in Great Britain in 1976 and the position of the British economy remained precarious. At the end of the year the government introduced more 'deflationary packages' and the objective to reduce public spending on the side of social security was dominant. However, the proposals met strong opposition both outside and inside Parliament and had subsequently to be dropped. As in the 1960s, the type of benefit (contributory rather than means-tested) appears to have been important for the concerted strength of the resistance against proposed restrictions (especially with regard to occupational pensioners). This underlines once again the still prevailing distinction between allegedly 'deserving' beneficiaries (pensioners) and 'less deserving' claimants (the unemployed).

With regard to changes in unemployment compensation in West Germany, the AFG's close links with and dependence on the economic situation became obvious. Rising unemployment had a direct effect on the *Bundesanstalt* budget, separated from Federal finances. Expenditure on *Arbeitslosengeld* and *Arbeitslosenhilfe* increased while revenue from earmarked contributions decreased. The 'good weather' concept of the AFG was revealed when the *Bundesanstalt* reserves converted rapidly into deficits and the government was required to pay subsidies in order to balance its annual budget. In line with the AFG stipulation from 1969, the government, as well as the opposition, argued that subsidies from the Federal budget should only be made in times of crisis and only for a limited period of time. Thus, a consolidation of the *Bundesanstalt* budget would have to be made either by increasing contribution rates, by a reduction in expenses or a combination of both.

This scenario revealed the particular relation between expenditure on the two main areas within the AFG. In 'good times', i.e. low unemployment and high *Bundesanstalt* reserves, as in the 1960s, the extension of preventative labour market policies reflected a programmatical superiority over compensatory unemployment benefits. As shown in the previous chapter, benefits improvements were implemented complementary to 'active' labour market programmes. In 'bad times' however, i.e. high unemployment and deficits in the *Bundesanstalt* budget, as in 1975 and 1976, a priority was given to a preservation of the level and duration of insurance benefits while expenditure on vocational training and other sections was substantially reduced. The levels of *Arbeitslosengeld* and *Arbeitslosenhilfe* had just been increased in 1974 in response to an unprecedented rise in unemployment in West German history.

This can, in part, explain the 'immunity' of unemployment benefits. However, there are other, related, considerations. Contributory unemployment benefits, similar to retirement pensions, represent 'wage replacement benefits' (which is also the official terminology), which have traditionally been given high political priority by the DGB. Thus, a direct attack on benefit levels would have had to overcome strong political obstacles, mainly, but not only from the side of the DGB (see below).

However, while the level of *Arbeitslosengeld* or *Arbeitslosenhilfe* remained unchanged, the access to *Arbeitslosenhilfe* became more stringent again and a claimant's right to refuse offered types of employment was restricted. Compared with the time before 1974, a reversed relation between labour demand and labour supply and growing public concern about alleged cases of benefit abuses, led the government to introduce a further amendment to the AFG, increasing pressure on some of the unemployed to accept less favourable jobs. Yet unemployment levels remained very high in West Germany after 1975, despite the introduction of various 'special programmes', aimed at the integration of 'problem groups' into the labour market, and despite a return to economic growth. One response to this situation was to continue introducing stronger control procedures, stricter eligibility criteria for the receipt of benefits and harsher sanctions against some groups of the unemployed. This might be interpreted as an attempt by the West German government, making use of public concern about unfilled vacancies and about the alleged 'immobility' of unemployed job seekers, to deflect from its failure to reduce unemployment more substantially.

As outlined in Chapter 2, a central underlying hypothesis of this study is the notion that institutional frameworks in which unemployment benefits operate are important factors which facilitate or constrain political action. With regard to benefit changes in the mid 1970s, the relevance of structural factors has already been emphasised at some points above. However, before concluding this chapter, I will briefly demonstrate the impact of administrative arrangements by comparing potential with actual changes in benefit levels in the two countries.

By the mid 1970s, the British government was committed to uprating benefit levels at least in line with inflation which seemed an effective protection against a reduction of the real value of benefits. Also, the funding system for unemployment compensation in Great Britain is intertwined with expenditure on other social security benefits. Unemployment benefit levels are linked with other short-term insurance benefits. Unlike in West Germany, there is no separate budget for unemployment benefits but a National Insurance Fund, financed by

national insurance contributions and by regular subsidies from general revenues. Expenditure on supplementary benefits is not specifically designed for unemployed claimants and linked to expenditure on social security in general. These considerations might lead to the conclusion that specific cuts in unemployment benefit levels are harder to impose in Great Britain than in West Germany and thus less likely.

This was not the case however. With governments in both countries committed to decreasing public expenditure, benefit levels seemed better protected in West Germany - at least with regard to benefits administered by the *Bundesanstalt* (which covered a large majority of registered unemployed in the 1970s, see Chapter 4). One explanation for this relates to the way in which benefit levels are administratively altered in the two countries. Changes in the real value of benefits in Great Britain depend on annual upratings in relation to movements in price levels. In West Germany, there is no connection to inflation but the link with earnings is given by definition. Provided the West German government intends to reduce benefit levels, the introduction of particular legislation (an Amendment Act to the AFG) is necessary in order to fix lower benefit rates. By comparison, if wages rise faster than prices, the option of lowering benefit rates appears to be both less complicated and less visible in Great Britain. Short-term benefit scale rates can (repeatedly) simply be uprated to a lesser degree than other benefits (which was the case in the mid 1970s). There is no need to bring in new legislation.

However, this is not a sufficient explanation for actual policy outcomes. Other differences concerning the traditional type of unemployment benefits proved to be significant, especially with regard to the position of the unions in both countries. Both the SPD as well as the Labour Party depended on cooperation with the unions. However, the DGB's position with regard to unemployment benefits differed significantly from the TUC's priorities. The TUC played an active role in determining Labour's priority for pension improvements in 1974, which apparently limited the scope for increases of other benefit types. The plight of unemployed benefit claimants became more relevant to the unions only later, who nevertheless did not lose sight of their main demand for better retirement pensions. In West Germany, it could be argued that the DGB played a more passive role in determining the SPD's priorities with regard to social security as a whole. Yet the unions were very influential when faced with the choice between benefit cuts or reductions in expenditure on training programmes. As mentioned earlier, a defence of wage-replacement benefit levels

had traditionally been strongly defended by the DGB and this continued to be the case in the mid-1970s. In West Germany, employees are perceived (and perceive themselves) as having obtained the actuarial right to a benefit based on contributions. In the case of retirement pensions, this is laid down as a 'property right' in Basic Law, underlining the strong degree of 'juridification' of wage replacement benefits (see Vobruba, 1983) in West Germany which seem to be part of the explanation of the successful resistance against politically motivated direct cuts in benefit levels. However, as will be shown in the next chapter, there are other (indirect) ways of reducing expenditure on benefits.

To sum up, the economic situation and development during the economic crisis in the mid 1970s was an influential factor behind alterations made to the income support systems in both countries. Both governments abandoned Keynesian oriented policies of 'deficit spending' as a means to economic recovery from 1975 onwards. The decrease of inflation and the reduction of public debts became the major objectives in economic policy making. The changed situation in the labour market, as well as the perception of unemployment as a political and social problem before and during the time under consideration were other relevant variables for policy outcomes. National similarities and differences in both of these areas have to be taken into account for an interpretation of policy decisions (and non-decisions) with regard to unemployment benefit systems. However, another significant aspect was the different welfare state context in which income support schemes operate. The 'legacy' of the organisation and funding of the systems and the types of benefits seem to have played a pivotal part in shaping policy outcomes.

As outlined in the previous chapter, in the second half of the 1960s, steps towards a 'convergence' between unemployment compensation schemes in West Germany and Great Britain could be detected. In the mid 1970s there was no further 'convergence' but a trend towards 'divergence'. Under financial pressure, characteristic differences of benefit provision in the two countries (in short, 'needs oriented' in Great Britain versus 'work oriented' in West Germany, see Chapter 2) became more pronounced again. In West Germany, the 'insurance character' based on the criteria of contribution and employment, became more important for inclusion in benefit coverage while 'equivalent activities' (education and vocational education) to insured employment as a condition for eligibility were removed again. *Arbeitslosengeld* and *Arbeitslosenhilfe* became more concentrated on contributors to the *Bundesanstalt*, favouring employees mainly in 'standard employment

relationships' (Hinrichs, 1991) and discriminating against people outside or on the peripheries of the labour market. Thus, the changes made in 1975 and 1977 reflected a move back towards the traditional 'wage-labour centred' social policy in West Germany (Vobruba, 1990).

In Great Britain, an increasing number of unemployed people had to resort to means-tested flat-rate supplementary benefits after 1974. The coverage of the ERS reached a maximum in 1975, but even then only one in five registered unemployed people were in receipt of the supplement and the proportion decreased thereafter. This demonstrates that the ERS system did not become a substantial feature within the British system of income support for the unemployed. The scheme had been introduced only in the second half of the 1960s and mainly as a means to assist the 'redeployment' of labour. It was not reviewed afterwards. In the mid 1970s, the main function of the ERS scheme seems to have been the justification for not improving unemployment benefits. The relatively short existence of the scheme, but also the failure to amend it, reduced its significance and contributed to its relatively weak position and low priority, for instance, in the eyes of the TUC. This is in sharp contrast to the traditional priority the DGB has devoted to earnings-related benefits in West Germany.

In sum, the influence of institutional arrangements and principles on policy changes in the two countries became apparent in the mid 1970s. Actors' perspectives, interests and actions had been affected by the role of traditional policy legacies within the area of provision of income support for unemployed claimants. As outlined, at a time of similar pressure (rising unemployment, low economic growth and public deficits) the type and direction of actions taken concerning unemployment benefits showed interesting differences. In West Germany, both the role of the *Bundesanstalt* as an agency outside of the government which has to be subsidised annually if deficits occur and the traditional character of earnings-related insurance benefits, based on actuarial principles, has been pivotal for the location and the direction of cuts in public expenditure. The lack of similar arrangements and principles and the link between unemployment benefits and other social security expenditure has to be taken into account in order to explain decisions taken by the British government and priorities of the TUC. As the following chapters will show, the role of these (and other) institutional differences became even more prevalent in the 1980s.

Chapter 7

Benefit changes and the crisis in the welfare state - the early 1980s

In this chapter I will analyse benefit changes in the early 1980s. In both countries this was a particularly interesting period in many respects. Firstly, another steep rise in oil prices triggered off a second economic recession in all major industrialised countries. In both countries under investigation, economic growth rates slumped and unemployment rose sharply to even higher levels than in the mid 1970s. Secondly, the early 1980s also marked what was to be called a crisis in the welfare state (see OECD, 1981). In a large number of countries a strong welfare backlash occurred. In public debate, attacks on existing welfare institutions and programmes increased, not solely but predominantly from neo-conservative directions. The rhetoric was not always matched with political action, but a cutback in public expenditure, and especially on social spending, was certainly on the agenda in Great Britain as well as in West Germany. This was somewhat constrained however, due to increased benefit and other expenditure as a consequence of high unemployment. Thirdly, in both countries social-democratic or socialist parties in government were replaced by conservative (Great Britain) or conservative-led administrations (West Germany). However, there were important differences in the policies pursued by the new governments in the two countries which can be related to the more radical shift towards monetarism and anti-welfare ideology of the Thatcher government, facilitated by the one party government system in Great Britain, compared with a more restrained approach in West Germany, which can partly be explained by the need for compromise in a coalition government.

As usual, the chapter is divided into three parts. I will first concentrate on changes in unemployment compensation in Great Britain between 1979 and, roughly, the end of the Conservative Party's first term in office in 1983. Because the shift in power towards the conservatives in West Germany occurred only in 1982, the second period under investigation has a later starting point with 1981 and reaches roughly to 1984. In this way, policy changes by both coalitions, before and after the breakdown of the SPD/FDP government in September 1982,

will be captured. This procedure also seems justified with regard to the rise in unemployment in West Germany which trailed the development in Great Britain (see Chapter 4). However, for reasons of completeness, in both sections, a brief discussion of relevant developments since the mid 1970s up to 1979 in Great Britain and up to 1981 in West Germany will precede the actual analysis. Finally, a comparative assessment of benefit changes in the early 1980s will be made.

Great Britain

A large number of major and minor changes were introduced in the social security structure during the 1980s which affected unemployed claimants either directly or indirectly (due to, for example, changes in housing benefit regulations, see Hill, 1990, pp. 113). Atkinson and Micklewright (1989) identified 38 alterations made between 1979 and 1988 and modelled their (mostly negative) impact on the income situation of the unemployed and their families. In this section I will concentrate on the analysis of the most significant changes in the early 1980s. Attempts to combat the alleged increase in incidences of benefit fraud and changes introduced in the Social Security Act 1980 will be described first. I will then discuss the Social Security (No. 2) Act 1980 which was more directly aimed at reducing public expenditure and at the question of work incentives especially with regard to unemployed claimants. The implications of these changes in conjunction with rising unemployment and long-term unemployment constituted the context for a debate on unemployment benefits during the following years, upon which I will reflect. However, a brief outline of developments leading up to the time when the Conservative Party regained power is provided as well as a reflection on the ideological context and political objectives of the new government.

1. The development up to 1979 and policy objectives of the Thatcher government

Despite a 'battery of programmes' (Townsend, 1980, p. 17) with regard to employment and training,¹ the level of unemployment did not significantly decrease after the mid 1970s (see Chapter 4, figure 4.5). The annual registered

¹ For an overview of the creation and development of various job creation, training and retraining schemes between 1973 and 1983 see Moon, 1983.

number of jobless remained around 1.5 million up to 1978 before unemployment declined by about 100,000 in 1979. As outlined in the previous chapter, from the mid 1970s onwards the Labour government had adopted austerity policies and concentrated on the fight against inflation (King, 1985, p. 477), the level of which had been reduced to 8.3% by 1978 when it started to rise again. Public expenditure as a share of GNP was reduced from 46.2% in 1974 to 45.6% in 1979 but social expenditure expanded although by a smaller increase than in the early 1970s (see Judge, 1982, p. 28). This was partly due to a rise in the number of single parents but in particular of unemployed people in receipt of supplementary benefits. While in 1974 just over 300,000 unemployed workers claimed supplementary benefits, their number had doubled by 1978 (Piachaud, 1980, p. 182). Although this development ran against Labour's declared policy objective of reducing the scope of dependency on means-tested benefits, the overall structure of benefit arrangements for the unemployed remained largely unaltered during the second half of the 1970s.

As early as 1976 a comprehensive review (published in 1978 as *Social Assistance*) of the supplementary benefit system was set up by the DHSS with the aim of examining, among other things, 'the scope and purpose of the scheme and its method of operation' (DHSS, 1978, p. 1). Declared as an example of 'open government', i.e. consulting a large number of organisations and individuals (see Walker, 1983), the review was criticised for its concentration on administrative details of claiming and appeals, at the expense of an examination of the wider context of supplementary benefits with regard to other social security arrangements and its 'nil-cost' constraint. For improvements of the scheme, critics (for example the SBC and the CPAG) argued that additional resources would be needed (see Walker, *ibid.*, ch. 7).

However, the review team recommended the extension of the long-term supplementary benefit rate to the unemployed 'on the same basis as other claimants under pension age' (DHSS, 1978, p. 52) which was supported by the SBC, other organisations and individual Labour MPs. The influence of the Treasury within the Cabinet however seems to have been too strong for a change in policy and unemployed claimants remained excluded from the receipt of the long-term rate. This decision might also have been influenced by the public debate on alleged cases of benefit fraud and abuse which (although to a somewhat less pronounced extent than in 1976/77) continued in the second half of the 1970s. Public concern concentrated on unemployed people in particular

despite the fact that the level of unemployment benefit in relation to net incomes scarcely altered up to 1978 (see Piachaud, 1980).

It is questionable whether the Labour government would have introduced the higher supplementary benefit rate for long-term unemployed had it been reelected in 1979. However, the election was lost by the Labour Party not least due to a breakdown of the policy of continuous wage restraints and heavy reliance on cooperation with the trade unions which led to the 'winter of discontent' in 1978/79 (see Rodgers, 1984). By contrast, one of the major plans of the newly elected Thatcher government, committed to a strict monetary policy, large cuts in the public sector, privatisation and a deregulation of the labour market, was to confront the unions rather than to seek their cooperation (see Johnson, 1991, ch. 7). Whiteley points out that by the 1970s the 'Keynesian orthodoxy' had been 'discredited principally because it could not explain stagflation' (1990, p. 180) and it has been argued that, to some extent, the newly elected Thatcher government simply intensified tendencies which were visible in the policies of its predecessor (see Hudson and Williamson, 1986, p. 20). However, there were significant differences between the old and the new governments not only in the latter's rhetoric and wider objectives of macroeconomic policies but also concerning its perception of the role of the welfare state. These differences are important in the context of this study and it is necessary to reflect briefly on some of the major themes of the new administration in order to place the subsequent discussion of benefit changes into a wider political context.

A number of writers have concentrated on the distinctive character and ideological context of Thatcherism (see, for example, Hall and Jacques, 1983; Riddell, 1985; Gamble, 1988) and on its implications on social policy (see Taylor-Gooby, 1981; Gough et al., 1984; Deakin, 1987; McCarthy, 1989). There appears to be a consensus that the overriding economic strategy during the first term in office was the pursuit of controlling the money supply in order to bring inflation down. Instead of increasing public expenditure in order to support aggregate demand, an attempt was made to reduce the public sector borrowing requirement (PSBR) because public expenditure was regarded as being 'at the heart of Britain's present economic difficulties' (Cmnd 7746, 1979, p. 1). While the committed pursuit of monetarism might have helped to reduce inflation rates from 1980 onwards, it also made a major contribution to the scope of the economic recession in the early 1980s. Sir Geoffrey Howe, the newly elected Chancellor of the Exchequer, increased interest rates in 1979 which attracted foreign capital and drove up the value of sterling. Additionally, the increase in oil

prices appreciated the exchange rate further because of North Sea oil. As a result, exports became more costly while the price of imports declined. Industrial investment dropped sharply, resulting in a 'massive collapse in manufacturing activity' (Hudson and Williamson, 1986, p. 28) and a steep increase in unemployment (see Whiteley, 1990, p. 183).

However, this was accepted by the government since full employment was no longer regarded as a primary policy aim. On the contrary, 'high levels of unemployment and bankruptcies were justified as necessary to purge the economy of wrong attitudes and misallocated resources, and to lay the foundations for profitable investment and production' (Gamble, 1990, pp. 196; see also Moon and Richardson, 1985, ch. 2). In 1978, Sir Keith Joseph had already argued that full employment 'is not in the gift of Governments. It should not be promised and it cannot be provided' (quoted in Johnson, 1991, p. 219). Instead, a deregulated labour market and lower wages were believed to create more jobs in the longer term. Yet in order to achieve more wage flexibility and to prevent workers 'pricing themselves out of a job', the existing trade union structure had to be broken, which became a major preoccupation of the Thatcher administration in its first and second term in office (see Johnson, *ibid.*).

The new government's critique of the level of public expenditure was made on both economic and ideological grounds (Gough et al., 1984, p. 44). The adopted free market approach was intended to provide a larger scope for the private sector which was regarded as the only way to lead to an economic recovery. In order to prevent crowding out effects, public expenditure had to be cut back in order to create improved conditions for profit realisation. Privatisation of nationalised industries and cuts in social security, health, education, housing and defence were all mentioned as priorities - as well as savings to be made in the administrative apparatus (see below). The implicit argument was that in the past, the 'public sector had been "crowding out" private enterprise; it was now its turn to be crowded out and to go to the end of the queue' (Johnson, 1991, p. 80). Yet, as it turned out, costs related to the increase in unemployment (benefits, training programmes) were the major reason why public expenditure, contrary to government plans, did not decrease but increased in real terms after 1979.

A reduction in the role of public welfare was also justified with reference to populist ideas of self-reliance, individualism, freedom and choice and parental and family responsibility. The reduced role of the welfare state and an extended space for private welfare provision concerning both services and benefits was regarded as important for the creation of incentives and private initiatives and

against the alleged tendency towards a 'dependency culture' which was brought about by an 'overproviding' welfare state (see Golding, 1983, p. 10). As Deakin (1987, p. 93) pointed out, the welfare state was identified as contributing to the prevailing economic problems because of its tendency to expand and to consume larger shares of public expenditure and because of its adverse effects on private initiatives and self-help.

The incoming government was determined to change social security arrangements for ideological reasons as well as part of its economic strategy. Apart from the overriding objective of reducing public expenditure, a 'restoration of incentives' was regarded as necessary 'so that hard work pays, success is rewarded and genuine, new jobs are created' (Conservative Party, 1979, p. 283). This was to be achieved by reducing income tax rates but also by making a clearer distinction between 'deserving' and 'undeserving' benefit claimants. Scarce resources should be allocated on welfare services for 'the effective support of the old, the sick, the disabled and those who are in real need' (*ibid.*, p. 283) while the unemployed and long-term unemployed remained 'conspicuously absent' (McGregor, 1985, p. 236). In contrast, more coercive policies and also benefit changes were justified by emphasising the need to reinforce rules concerning the acceptance of 'available jobs' by unemployed claimants and 'to act more vigorously against fraud and abuse' (Conservative Party, 1979, p. 292). As will be shown below, the government played an active part in keeping the public debate and concern about the 'why work? syndrome' alive.

In sum, this brief and only sketchy description of the political and ideological position of the new government should illustrate the changed perception of the role of welfare programmes and benefits in Great Britain after 1979. Throughout the post-war period both major parties generally supported existing welfare state structures for reasons of social justice (open access to health, education and other services; provision of an income for those in need) as well as, at least up to the mid 1970s, out of economic considerations (stabilisation function of social spending). The Labour government stopped the expansion of the welfare state in the mid 1970s (and made some cutbacks) which was justified with reference to an adverse economic situation. The commitment to the existing welfare system was publicly confirmed however and an expansion promised as soon as resources would allow. This position was not shared by its successor. The incoming government perceived the welfare state as stifling self-help and as a major economic burden on the economy. Anti-welfare rhetoric was rife although

a planned reduction of welfare expenditure after 1979 was not achieved due to the effects of the rise in unemployment.¹ Against this backcloth I will examine implications concerning unemployment compensation arrangements up to the end of the first legislative period in 1983.

2. The Social Security Act 1980 and the attack on fraud and abuse

In his first budget the Chancellor announced a cut in public expenditure of £1.5 billion while top income tax rates were reduced and VAT was raised (Gamble, 1988, p. 99). As far as social security expenditure was concerned, the government chose not to make good a one percent shortfall in the uprating of short-term benefits from 1978 whereas long-term benefits were raised above the increase of inflation between November 1978 and November 1979.² Thus, the pledge to protect the living standards of pensioners and other long-term benefit recipients except the unemployed was fulfilled. The lower increase of short-term benefits widened the gap between the two types of benefits further and also made the plight of the long-term unemployed harder. The number of unemployed was expected by the government to rise to 1.8 million by 1980 and to over 2 million a year later and, according to the CPAG, it was 'generally accepted that the number of unemployed forced to depend on 'short-term' benefits [were] likely to rise substantially over the next year' (*Poverty*, August 1979, p. 15).

During his budget statement Sir Geoffrey Howe described benefit arrangements as 'too complicated' and as acting to 'reduce the incentive to work' (HCD, 12 June 1979, col. 253). Later in the year a Bill was published which became the Social Security Act 1980. Proposals in the Bill drew heavily on the DHSS review which had been conducted between 1976 and 1978 (see above), and concerned mainly supplementary benefit regulations. Walker (1983) points out that the review contributed to the speed with which the new administration was able to introduce the reform in the supplementary benefit scheme within six months of coming into office (*ibid.*, p. 125). The government claimed it had taken account of the large number of comments on *Social Assistance*, and this justified the lack of consultation concerning the Bill before it was introduced in Parliament (see HCD, 20 December 1979, col. 904). Furthermore, changes introduced in the Social Security Bill were frequently legitimised by being described as having been initiated by the Labour government (see HCD, *ibid.*,

¹ Expenditure on particular programmes however, especially housing, was cut back after 1979 (see Hills et al., 1990).

² For other measures announced in the budget see *Poverty*, August 1979 and Walker et al., 1979.

col. 903 and Standing Committee E, 12 February 1980, col. 595) especially with regard to the nil-cost constraint of the reform. Alcock stressed that 'a plan to reform social security without cost was like a minor pool win for the new government' (1981, p. 120).

Some of the main features of the Bill (for details see McGregor, 1981 and Walker, 1983) also affected unemployed benefit claimants.¹ The major change however, which had not been suggested in *Social Assistance* and which aroused the strongest criticism, was the decision to link the level of pensions and other long-term benefits merely to the development of the prices, rather than average earnings (if higher), which had already been the case for short-term benefits. Despite the fact that the value of some benefits (for example child benefits) had been eroded due to insufficient upratings, this decision represented the first real cut in social security benefits since the 1930s (Walker, 1983, p. 122). This might explain the fact that the criticism against the Bill focussed on this individual clause which also took up most of the time in committee while other changes induced only limited comments. Another change which was not proposed in *Social Assistance* was the abolition of the SBC and the establishment of the Social Security Advisory Committee (SSAC) which took over its consultative but not its more executive and policy-making role. Instead of being responsible for the formulation of policy guidelines regarding the exercise of discretion concerning the supplementary benefit scheme, the SSAC inherited the independent, although more reactive, advisory function of its predecessor with regard to both insurance and supplementary benefits.

While the government accepted the recommendation made in *Social Assistance* to reduce the qualifying period for the long-term supplementary benefit rate from two years to one, the proposal to extend entitlement to unemployed claimants was rejected on the grounds of costs. Thus, while 'about 98,000 claimants' (HCD, 20 December 1979, col. 909), who had been receiving supplementary benefits for more than ~~one~~ year, gained from the new regulation, there was no improvement for over 100,000 unemployed claimants (McGregor, 1981, p. 129) who had been in receipt of supplementary benefit for at least two years. The extension of the higher supplementary benefit rate to unemployed who had been out of work for at least one year would have helped 350,000 jobless claimants

¹ The number of age bands for children's scale rates were reduced, supplementary and national insurance benefits were aligned, a capital cut-off point (£2000) above which eligibility was lost was introduced and benefits to school leavers were deferred until the end of the holidays (see next chapter). For the estimated monetary effects of these and other individual changes in the Social Security Act 1980 see Walker, 1983, p. 158.

(Rose et al., 1988, p. 38) and would have increased the level of additional resources needed to £65 million. It seems questionable that the denial of better benefits for long-term unemployed was only a 'simple question of costs and priorities' (Reg Prentice, Minister of Social Security, Standing Committee E, 26 February 1980, col. 1218).¹ Individual Ministers and Conservative MPs frequently maintained the necessity for restoring a 'fairer balance between incomes in work and out of work' (Patrick Jenkin, Secretary of State for Social Services, HCD, 27 March 1980, col. 1659) and a rise in benefit levels for unemployed people might have been regarded as counteractive to this strategy at a time when public concern about alleged cases of workshyness was growing (see *The Times*, 20 December 1979). Despite the government's assurance that it would not conduct a campaign against the unemployed (Reg Prentice, Standing Committee E, 26 February 1980, col. 1215) it seems obvious that the failure to end the 'long-standing inequity against long-term unemployed claimants of supplementary benefits' (Walker, 1983, p. 128) has to be seen in conjunction with the attack against an 'why work? syndrome' (see below).

Apart from reducing public expenditure,² the Social Security Act 1980 did not achieve its stated objectives. Walker (1983, pp. 129) and McGregor (1985, p. 243) emphasised that the key aim of creating a simpler structure was not accomplished. The alignment of supplementary and national insurance benefits did not occur, due to a reduction of short-term insurance benefits (see below) while, after a temporary drop, the rise in the number of single payments continued and even accelerated from 1983 onwards (Beltram, 1984, p. 55). Families with younger children gained due to the reduction of age bands while the introduction of the capital cut-off point for supplementary benefit claimants affected people in receipt of redundancy payments who were not exempted from this new regulation (Morris with Llewellyn, 1991, p. 55).

The CPAG (*Poverty*, April 1980, p. 26) pointed out that the Social Security Act 1980 did 'not even hint at a long-term strategy to reduce dependence on supplementary benefit by improving other social security benefits' and already in 1979 it became obvious that the new government accepted that means-tested benefits would constitute a growing importance within the social security system in Great Britain. This meant a break with previous governments as far as the, at

¹ The changed perception of and debate in relation to welfare benefits in the early 1980s might be exemplified by the position of Reg Prentice, who as a former Labour Minister, joined the Conservative Party in 1976 and became a Minister of Social Security and an outspoken critic of existing welfare state programmes.

² The break in the link between the rise of long-term benefit levels and the rise in earnings saved £500 million in 1982/83 according to Lowrie, 1985.

least rhetorical, intention was concerned to adhere to Beveridge's concept of a dominant insurance system and the more exceptional and temporary function of assistance benefits as a last resort for income security. The failure to extend the long-term rate of supplementary benefits to unemployed claimants (criticised by the SBC and also by the SSAC) might also be linked with the frequent announcements concerning the attack on 'fraud and abuse' and the restoration of work incentives. It has to be noted that (as outlined in the previous sections) the drive against the allegedly growing extent of 'workshyness' had already started under the Labour administration. Control procedures were tightened in the second half of the 1970s and the number of prosecutions of social security claimants went up four times (McGregor, 1981, p. 139). However, in line with its 1979 election manifesto (see above), the new administration revived the issue considerably both rhetorically but also by taking action to 'save benefits and to strengthen the integrity of the (social security) system' (Patrick Jenkin, HCD, 13 June 1979, col. 442).

Unsubstantiated by any empirical proof, the government repeatedly maintained that 'there is evidence of a good deal of voluntary unemployment affecting the whole country' (HCD, 6 November 1979, col. 206) and that 'one of the main problems' are people who work but pretend to be unemployed (Reg Prentice, 13 February 1980, col. 711). An extra 1,050 investigators (half of them unemployment review officers) were employed, and this was expected to save £50 million in 1980/81. While the calculation of this sum and of the money eventually saved rests on doubtful assumptions and was less than had been hoped for at first (see Sinfield, 1982, footnote 16) the publicity given to this policy 'may have produced effects other than direct savings in public expenditure' (McGregor, 1985, p. 239). The 'crack-down on scroungers' might have helped to 'maintain "scroungerphobia" and reinforce the stigma of being out of work and receiving state benefits' (Sinfield, *ibid.*, p. 118). The attack against an allegedly rising level of benefit fraud continued to be a major issue during the government's first term in office with recurrent well publicised individual cases of benefit abuse and actions taken by the administration against it. Perhaps the most notorious incident was the so-called 'Operation Major' in September 1982 when a bogus benefit office was set up in Oxford (for details see *Unemployment Unit Bulletin*, March 1983). Also, unpublished instructions were issued to social security investigators with the aim of 'detering false claims to benefit and of encouraging any person wrongly claiming benefit to withdraw his or her claim' (quoted from Moore, 1981, p. 136). Thus, a signal was sent out to the public

that 'something was being done' against fraud which might also have helped to deflect from the failure of reducing unemployment by inducing the impression that part of the problem was due to the 'anti-work' attitude of the jobless themselves.

Despite the fact that for both married and single unemployed benefit claimants there had been a decline in living standards (measured by the level of benefits as a proportion of average earnings) to the lowest level since 1971 (except for April 1975, see *Social Security Statistics*, 1988, p. 256), individual Conservative MPs demanded a reduction in benefit levels. Wages were expected to fall in real terms which would justify, it was argued, the breaking of the link between short-term benefits and the rise in prices (see HCD, 5 December 1979, col. 483). This proposal was apparently secretly discussed in Cabinet in September 1981 on the basis of a paper recommending cuts in welfare spending, which was circulated by the Central Policy Review Staff and approved by the Treasury (see *The Economist*, 18 December 1982 and *Poverty*, April 1983). However, the strongest attack on unemployment claimants in particular was made as part of the Social Security (No. 2) Act which was introduced in 1980.

3. The Social Security (No. 2) Act 1980

During 1980 the economic recession deepened rapidly. High interest rates and soaring oil prices pushed sterling up further and the competitive position of British companies declined significantly (see Gamble, 1988, p. 101). The number of bankruptcies and plant closures increased and the level of registered unemployment rose from 1.4 million in January to 2.13 million by the end of the year. Inflation remained high at 19.3% in March (Jackson, 1981, p. 7). During the budget statement on 26 March the Chancellor of the Exchequer announced that the reduction of PSBR was essential in order to achieve money supply targets which were set out in the Medium Term Financial Plan. In a Public Expenditure White Paper (Cmnd 7841) the intention to reduce previous spending plans by 4% between 1980 and 1984 was announced and in 1980/81 cuts fell mainly on housing and social security (for details of the budget see Jackson, 1981, pp. 8).

According to the government, public expenditure as a whole had increased by 30% since the early 1970s and expenditure on social security by 50% (HCD, 27 March 1980, col. 1699), outstripping growth in national income. This was perceived as 'a worrying trend' which had to be stopped 'if the social security budget is not to crowd out other legitimate public spending and impede tax

reforms' (ibid.). In the light of limited resources, decisions should 'represent the best balance between protecting the old, the poor and the needy, strengthening work incentives, and securing fairness as between the taxed and the untaxed' (Sir Geoffrey Howe, HCD, 26 March 1980, col. 62). The Secretary of State for Social Services announced major changes on the 27 March, incorporated in the Social Security (No. 2) Bill which was characterised as an 'integral part of the budget strategy' (HCD, 15 April, col. 1037).

It was intended that short-term insurance benefits (unemployment, sickness, widowhood) and invalidity benefit be made taxable with the aim of 'redressing' 'the balance between income in work and out of work' (Standing Committee B, 24 April 1980, col. 206). The 'public as a whole knew', it was argued, that 'over the years the gap between incomes in work and out of work has narrowed to the point where incentives have been eroded' (ibid., 8 May 1980, col. 907) and 'complained bitterly' (ibid., col. 908). Once again the government failed to provide evidence for the assertion of eroding work incentives and conceded that actual cases of overlap between wage and benefit levels 'may be very few' (ibid.). The justification for political action not based on empirical proof but with reference to alleged populist beliefs was typical for the government's strategy at the time. However, for administrative reasons, the integration of short-term benefits into the tax net was apparently not possible before 1982. Thus, an 'abatement' was planned for the next uprating in November 1980 as an 'interim step'. Short-term benefit levels were to be increased by 5% less than the rise of other benefits. The proposal also provided the Secretary of State with the option of further cuts up to 5% in the two following years. The financial effect of the reduction in benefit levels in 1980 was £140 million while the taxation of benefits was expected to raise £700 million in 1984/85 (Lowrie, 1985, p. 6). Patrick Jenkin emphasised that 'as soon as the unemployment benefit comes into tax so the rationale for the 5 per cent abatement ends' (Standing Committee B, 30 April 1980, col. 526). The cut in unemployment benefit was also justified by pointing out that the Labour administration had previously tried to make unemployment benefit taxable (HCD, 20 December 1979, col. 904).¹

The other major change was the reduction and eventual abolition of the earnings-related supplement for short-term benefits in 1982. This change would

¹ It should be noted that unemployment benefit was not taxed at source, but became taxable, i.e. the amount of benefit paid was added to the overall annual income of a person. The effect of this change which was eventually introduced in July 1982 was that tax refunds due to reduced earnings could no longer be claimed during a spell out of work but only after the return to work or at the end of the current tax year, whichever was earlier.

'create the least social damage', it was maintained (Standing Committee B, 7 May 1980, col. 839), because those 'who are a little way up' on the income scale did not 'have the same priority' with regard to the protection of living standards and 'among them are certainly those who qualify for an earnings-related supplement' (ibid., 8 May 1980, col. 906). Also this decision was linked to the attitude of former Labour administrations. The real value of the supplement, it was argued, had been allowed to decline by 28% between 1972 and 1979 which indicated that successive governments had not thought it a 'sufficiently important benefit' (Standing Committee B, 8 May 1980, col. 910). Due to this administrative neglect, ERS was paid to only 10 to 15% of unemployed claimants at any one time, so that it was 'hard to justify its retention' (Sir Geoffrey Howe, 26 March 1980, col. 60). Furthermore, it was maintained that redundancy payments had become much more generous and employers' sick pay schemes more prevalent which reduced the need for having a separate benefit system for people out of work (HCD, 15 April 1980, col. 1034). It was estimated that the abolition of the scheme would save £360 million in 1982 (Lowrie, 1985, p. 6) while expenditure on supplementary benefit would go up by £75 million due to the estimated increase of 30,000 claimants in 1981 and of 110,000 people in the following year (Standing Committee B, 7 May 1980, col. 832).

Another change in the Bill was directed at strikers whose families could claim supplementary benefits. The Bill contained a clause which provided an automatic deduction of £12 a week, whether strike pay was received or not. Furthermore, the Bill provided that the compulsory uprating of the amount pensioners could earn under the earnings rule should ease and included a clause which introduced the abatement of unemployment benefit where a claimant was receiving an occupational pension of more than £35 a week. Finally, the period of linking spells in the receipt of insurance benefits was reduced from 13 to 6 (later 8) weeks which was intended to stop the 'anomaly of people becoming eligible for invalidity benefits as a result of a series of short periods off work' and to help 'those who suffer frequent spells of unemployment' who would be able to requalify earlier (HCD, 15 April 1980, col. 1044).

In addition to these changes, introduced in the Social Security (No. 2) Act, the living standard of social security claimants with children was also adversely affected by the insufficient rise in the level of child benefit in 1981 (representing a real cut of 9%, Lister, 1989, p. 107) and by successive inadequate upratings of the real level of dependency additions for claimants of insurance benefits. Due to

careless drafting of regulations in the 1970s the government was able to reduce these additions by 23% between 1979 and 1983 (Dean in *The Guardian*, 10 March 1983) before additions were abolished completely (see also Lynes in *Poverty*, August 1980, p. 10). Together with the rise in unemployment and long-term unemployment these changes contributed to an increasing emphasis away from insurance towards means-tested benefits. Sinfield and Walker point out that while unemployment rose by 60%, registered long-term unemployment increased by 220% to 1,144,000 claimants between 1980 and October 1983 (*Unemployment Unit Bulletin*, January 1984, p. 5). The overall number of people dependent on supplementary benefit rose from 4.6 million in 1978 to 7.1 million at the end of the government's first term in 1983. This included an increase in unemployed supplementary benefit recipients from 570,000 in 1979 to 1.7 million (McGregor, 1985, p. 235).

The motives behind the changes introduced in the Social Security (No. 2) Act were made explicit by the government and seem relatively easy to pinpoint. Apart from the perceived need for reducing public expenditure, the cut in unemployment benefits and the abolition of ERS were explicitly linked with the question of incentives and the fight against the 'why work? syndrome' (see above). The Prime Minister justified the 5% cut in benefits as appropriate because it was 'right to have a larger difference between those in work and those out of work' (HCD, 16 May 1980, col. 1616). However, while the objectives of cutting benefit levels and of the abolition of ERS (which had significant long-term effects for the material situation for unemployed claimants) seem obvious, the question is how the government was able to introduce legislation fairly easily against 'not more than a ritual protest' inside and a lack of activity and public concern outside of Parliament (Donnison, 1982, p. 208).

In the first weeks of the Committee meetings, only three representations concerning the Bill were made, none of which regarding the clauses affecting unemployment benefit or ERS. According to Donnison (1982), leading opposition spokesmen sent telegrams to the leader of every major trade union but 'no-one replied' (*ibid.*, p. 209). It was not until three weeks after the start of the meetings (see HCD, 9 June 1980, col. 67) that the TUC made a representation to the Secretary of State. Its main concerns were the clauses which concerned strikers and occupational pensioners. The CPAG was also slow to react especially with regard to the reduction in unemployment benefits and the abolition of ERS which, as Bolderson assumes, might have been partly attributable to the group's 'unease' about the justification for and defence of the

insurance principle (1982, p. 294). The limited protest demonstrated that social security claimants, and the unemployed in particular, lacked any 'powerful group able to oppose attempts to introduce changes' (McGregor, 1985, p. 233).

Other aspects were mentioned by commentators. For example, the Social Security Bill 1980 was still being discussed, and attention was being focussed on it, when the Social Security (No. 2) Bill was published. Also the speed with which the Bill was rushed through Parliament and Committee (with just two weeks of Committee meetings) might have influenced the lack of public awareness. Furthermore the changes introduced were deliberately presented as part of the budget strategy. While cuts were described as 'regrettable' and 'unpalatable' (Standing Committee B, 24 April 1980, col. 201) they were also justified as 'inescapable' if necessary changes were to be made in order to revive economic growth. 'Difficult choices' had to be made, it was argued, and 'no one has yet suggested any other parts of the social security budget that should have been cut in place of the reduction proposed here' (HCD, 15 April 1980, col. 1141). Also, the impact of the Bill might not have been fully realised since the timetable for implementation 'was staggered over a long period, from September 1980 to July 1982' (Bolderson, 1982, p. 295).

Finally, the implications for the social security system (e.g. the move towards means-tested benefits, the loss of the right to contributory benefits and thus the 'weakening' of the insurance principle) were not only not made clear by the government but also seemed not really understood by the opposition. This, according to Bolderson, can partly be attributed to the 'ambiguity inherent in social insurance' (ibid., 1982, p. 292) with regard to the question whether a 'contractual basis' of contributory benefits existed. The opposition argued that the changes particularly with regard to the abolition of ERS represented a breach of contract since contributors had paid for their benefits. This was denied by the government who stated that national insurance contributions were used to finance other benefits as well and that the scheme operated on a 'pay as you go' basis (i.e. contributions paid by currently employed workers are used to fund currently unemployed workers). Contribution levels for the year in which ERS was to be abolished had yet to be fixed. But there seems also to have been confusion within the ruling party. A Conservative MP argued there was 'no contractual relationship between the state and the recipient' (Standing Committee B, 8 May 1980, col. 880) while Patrick Jenkin emphasised that a right to unemployment benefit 'rests on the individual's contribution record' (Social Services Committee, 21 May 1980, p. 91). Thus, the decision not to abolish ERS

immediately was, perhaps, being made on the grounds that if people paying contributions believed 'that they would be entitled to the earnings-related supplement, they might then have a legitimate criticism' (Patrick Jenkin, Standing Committee B, 7 May 1980, col. 835).

While these structural considerations seem important, two other, and perhaps more simple, aspects appear to be relevant as part of the explanation for the relatively unproblematic process of legislation. Firstly, the frequently maintained link in the changes introduced with similar attempts made by former Labour administrations seem to have been a forceful defence which preempted stronger attacks to some extent. Although the idea of reducing unemployment benefits 'in lieu of taxation' might simply have been a 'smooth way of making a straight cut' (Donnison, 1982, p. 206) it also appeared effective because it was easy to stress that the Labour Party and also other organisations such as the SBC (see SBC, 1980, p. 8) were, in principle, in favour of taxing short-term insurance benefits. Similarly, with regard to the abolition of ERS¹, the government did not find it difficult to demonstrate that it was the inactivity of successive governments during the 1970s which resulted in the scheme being 'in a mess' (Micklewright, 1989, p. 540) by 1980. Micklewright pointed out that due to the combination of the 'poor design' with rising price and wage levels, by 1979 the ratio of male ERS recipients in the unemployment stock to those with ERS extinguished by the 85% cut-off rule had fallen to 6:1 (see Micklewright, *ibid.*, p. 547).

The second point refers to the frequent claims of a rising degree of 'workshyness' which was allegedly attributable to the scope of 'disincentives to work' inherent in the social security system. As shown in previous chapters, these arguments were existent in the late 1960s and also especially the second half of the 1970s. Yet the Conservative government deliberately revived and emphasised these issues (see above) to justify benefit cuts. Allegations of benefit abuse remained a dominant topic in the public debate. According to the SBC, the 'why work?' issue had 'rarely been out of the headlines for more than a week at a time' (SBC, 1980, p. 39). Public acceptance of the supposedly rising scope of the problem was enhanced at a time when wage levels were expected to fall which in turn was justified by the government as a temporary but necessary element for 'rebuilding the economy'. The government's argument that during a time of an 'inevitable' economic crisis (references to other countries were made frequently) the unemployed should not be spared from declining living standards

¹ Frank Field (Labour MP and member of the Social Services Committee) was, in principle, in favour of phasing out ERS if a 'quid pro quo' was provided, i.e. unemployment benefits were improved (see *The Times*, 20 August 1980).

seems to have appealed to large sectors of the public - notwithstanding the income situation of jobless people which had decreased over the previous years. Consequently, for the government, 'the budget had gained, not lost them support; and their plans for social security were by no means the least popular part of their programme' (Donnison, 1982, p. 208/9).

4. The debate on the restoration of benefit cuts

By the end of 1980 output in manufacturing was at its lowest level for thirteen years (Jackson, 1981, p. 10). Economic growth^{rates} contracted in 1980 and also 1981 (see Chapter 4, figure 4.3). Unemployment rose to 2.5 million in 1981 and to just below 3 million a year later while the level of inflation was gradually coming down from 12% in 1981 and 8.6% in 1982. However, despite the continuation of the economic crisis, and also growing criticism within the Conservative Party over the adopted economic policy approach, tight monetary policy remained dominant throughout 1980 and 1981.

In November 1980 the Cabinet discussed further cuts in public expenditure for 1981/82 which were expected to 'lighten the burden on the private sector' (Sir Geoffrey Howe, quoted in *The Times*, 25 November 1980). Decisions were announced during the budget statement in March 1981. It was argued that prices during 1980 had increased by 1% less than had been assumed when social security benefit rates were fixed for November 1980. This 'overprovision' (Cmnd 8175, p. 123) was to be taken into account for the next uprating and benefit levels were to be raised by 1% less than the anticipated rate of inflation. Also, national insurance contributions for employees were raised by 1% in April 1981.

High unemployment posed different problems for the government. Instead of being able to decrease public expenditure in line with its ideological position, the government was forced to increase public spending mainly due to higher outlays on benefits for the unemployed.¹ Secondly, in order to weaken protests against the inactivity in economic policy concerning the problem of unemployment, more resources were allocated to the MSC for 'special employment measures' such as job creation, work experience and labour supply programmes as well as training schemes (see Moon, 1983). Particularly with regard to rising youth unemployment (see Rose et al., 1988, p. 54), the government responded with a 'succession of schemes with confusing acronyms' (Deakin, 1987, p. 110). This

¹ As a proportion of GDP, public expenditure rose from 39.5% in 1979/80 to 43.5% in 1981/82 (Robinson, 1986, p. 4).

had the 'positive' side-effect of reducing the number of registered unemployment.

Similar thinking appears to have been influential on an attempt to reduce unemployment rates for older workers who were encouraged to leave the register. In July, it was announced that entitlement to the long-term supplementary benefit rate was to be extended to unemployed claimants, provided they were over the age of 60 and had been in receipt of supplementary benefits for at least one year. This group, it was argued, should have 'an opportunity to withdraw from the job market and, in effect, retire early' (Hugh Rossi, Minister of Social Security, HCD, 31 July 1981, col. 1352). This beneficial regulation for the older unemployed had, from the government's point of view, the positive aspect of decreasing the level of registered unemployment. Indirectly this measure imposed a sanction on those who continued to register since they would 'continue to receive the ordinary rate' (ibid.).¹ In contrast with previous thinking, Hugh Rossi claimed that the government had accepted 'in principle' the case for extending the long-term rate to the long-term unemployed but this was prevented by the costs involved (ibid., col. 1352).²

As already indicated, criticisms against the economic policy of the government became more frequent inside the Conservative Party and also the Cabinet during 1981. The so-called wets within the party preferred the introduction of reflationary policies as an answer to the ongoing economic crisis. For Deakin (1987, p. 103) the budget in 1981 was a crucial test for the continuation of tight monetary policy but criticisms (also concerning other policy areas) did not cease thereafter. In July an unsuccessful 'open revolt' against the Treasury was made, to which the Prime Minister reacted by the dismissal of critical members from Cabinet (e.g. Sir Ian Gilmour) and the transferral of others to lowlier posts (e.g. Jim Prior). By September 1981 all influential Ministries were firmly in the hands of supporters of the continuation of monetary policy.

Criticisms continued however, culminating in early October 1981 with (according to *The Times*, 15 October 1981) the Treasury's intention to raise unemployment and other short-term benefits by only 4% instead of 11% which was necessary to offset the rise in price levels. Critical voices against this plan were raised by spending Departments, the SSAC and individual MPs within the Conservative Party. Critics claimed, that by 1981 when unemployment was still

¹ For other direct political responses to unemployment between 1979 and 1983 see Richardson and Moon, 1984.

² According to interview information however, this was Hugh Rossi's personal position and not the one adopted by the government.

rising and long-term unemployment had increased considerably (and in fact almost doubled between 1981 and 1982, see Rose et al., 1988, p. 38), the real level of unemployment benefit and also its share of average wages had fallen to the lowest level since the early 1970s. Also, research on the income situation of unemployed claimants seems to have had some impact on individual Conservative MPs who urged the government to 'adjust its policies' not least because of its decreasing popularity which was indicated in opinion polls and lost byelections (see *The Times*, 30 November 1981).

These arguments seem to have been influential at a Cabinet meeting on 26 November when the Treasury accepted lower savings than had been hoped for. In early December Sir Geoffrey Howe announced that short-term benefits would be uprated in November 1982 'equal to the expected increase in the retail price index during the next twelve months' (HCD, 2 December 1981, col. 239). Since inflation to November 1981 had been underestimated by 2%, he announced that pensions and other long-term benefits were to be compensated. Yet this would not apply to short-term benefits since many people in work, it was argued, had to accept wage increases 'significantly below the rate of increase in inflation' in order to 'protect their employment and to improve the prospects of their employers' (ibid., col. 242/3). However, some of the Wets believed that, due to the countervailing pressure inside the Conservative Party, the proposed benefit cuts would be dropped before the budget statement was made in 1982 (see *Financial Times*, 10 December 1981). In February the Conservative 'Bow Group' published a pamphlet which demanded the withdrawal of the 2% shortfall and also the restoration of the 5% cut in insurance benefits as soon as unemployment benefits became taxable later in the year, out of 'fairness to the unemployed' (see *The Times*, 9 February 1982). The pressure for improvements in benefits for jobless people became more pronounced also outside Parliament, indicated by, for example, the drawing up of a Benefit Charter for the unemployed by the TUC in February.

These demands were apparently influential. In his budget statement Sir Geoffrey Howe stated that he had 'received many representations that the 2 per cent shortfall should be restored' also for short-term benefits and that 'we have decided that it should be' (HCD, 9 March 1982, col. 738). However, the government failed to give an assurance for restoring the 5% cut in insurance benefits which caused a major dispute within the Conservative Party. On three occasions (in March, April and July) the opposition party put forward proposals for restoring the shortfall which were supported by a large number of

Conservative MPs. Although all amendments were defeated, the government majority was slim in each case and on 13 July 1982 the margin fell to only 8 votes which was the lowest of the then Parliament. The fact that the government was not defeated might be partly attributable to the reluctance of Conservative MPs to vote against the government during the Falkland War (see *The Times*, 9 July 1982).

The Wets linked their arguments to the material situation of the unemployed, to the political legitimacy of the government, to the cost involved in restoring the cut and to the issue of the 'why work? question'. One of the critics maintained that it was common knowledge that the unemployed were 'the least well off and the most underprivileged in our society' (Sir Ian Gilmour, HCD, 26 April 1982, col. 627) and that the government was imposing a 'double penalty' if taxation was to be introduced in July and the benefit cut from 1980 was not to be made good at the same time. Chris Patten pointed out that by 1982 over 1 million people had been out of work for more than a year and that the unemployed were a group which 'we all agree is not responsible for the circumstances in which it finds itself' (ibid., col. 644).

Another, and for the Wets important, point was the potential damage to the credibility of the government and the Conservative Party if the cut was not restored by July. The critics argued that a large number of Conservative MPs had 'loyally supported' the government in 1980 only because a clear impression was given by Ministers that the cut was an 'interim measure' which would terminate as soon as benefits became taxable. Not to restore the cut in July, it was argued, would render the government untrustworthy in the public eye (see *The Times*, 13 July 1982). Government Ministers were quoted who had 'unambiguously' given the assurance that as soon as short-term insurance benefits came into tax 'the rationale for the 5 per cent abatement ends (...) the one will give way to the other' (see Chris Patten, HCD, 18 March 1982, col. 524). Ministers responded that no 'unequivocal statement' had been given about the timing of the restoration, which although accepted in principle, had always been related to the question of 'economic and other circumstances prevailing at the time' (Hugh Rossi, ibid., col. 533).

The financial costs involved in restoring the 5% cut would have been £60 million in a year, which was 'not a trivial amount to find' (Hugh Rossi, HCD, 18 March 1982, col. 536). For the critics however this sum was easily affordable since the expected tax yield from including unemployment benefits into the tax system was about £650 million. Also, the PSBR in 1982 was £2

billion less than had originally been anticipated (see Chris Patten, 26 April 1982, col. 644). Finally, the defence for not restoring the abatement on the grounds that it would increase the number of people being 'financially better off by being unemployed' (HCD, 13 July, col. 880/1) was dismissed by the critics with reference to the SSAC which, it was argued, had demonstrated that only very few people were actually worse off in work than out of work (*ibid.*, col. 886). Chris Patten maintained that the 'question of "why work?" [was] hardly appropriate when there are 3 million people out of work' (HCD, 18 March, col. 524).

Despite these criticisms (supported by the SSAC and the Social Services Select Committee) the government refused to increase short-term benefits when taxation was introduced in July. The issue remained topical however throughout the second half of 1982. At the Conservative Party Annual Conference the Wets repeated their demands for a restoration of the cut (see *The Times*, 7 October 1982). While the government gave a firmer indication to the critics that the restoration would be made soon, during the autumn statement no date was fixed - possibly in order to have more room for manoeuvre before budget day (*The Times*, 19 November 1982). In the budget statement in March 1983, with an eye to a general election later in the year, the Chancellor of the Exchequer finally announced that it was 'right now to redeem that pledge' (HCD, 15 March 1983, No. 2 138). Other measures relating to high unemployment were also announced, such as the introduction of a job release scheme and the extension of the long-term supplementary benefit rate to unemployed over the age of 60 from the first day of unemployment onwards. Also these measures have to be interpreted against the backcloth of a forthcoming general election. Yet there were other reasons which help to explain that the pressure from the wets was finally successful with the restoration of the benefit cut.

A gradual improvement in economic activity and the improved PSBR might have been perceived by the government as providing a better position for benefit improvements. Also, unemployment (and long-term unemployment) was still growing which, again in conjunction with the prospect of a forthcoming general election, might have influenced political decisions beneficial for claimants. It should be noted that by 1983 there were indications that public opinion was shifting towards a more sympathetic attitude with regard to unemployed people when compared with 1980 (see *The Economist*, 8, 1983, p. 13). A more widespread direct or indirect (families, friends) experience of hardship caused by (prolonged) unemployment seemed to have had some impact - although this was

ambivalent. As McGregor points out, by 1983 there was still a majority who agreed with the view that many people made fraudulent benefit claims and that the social security system discouraged elements of 'self-help' but less than a quarter of respondents singled out benefits reductions as a necessary policy (McGregor, 1985, p. 233).

5. Conclusion

While the Labour government had started to concentrate on the attack against inflation in the mid 1970s, the Conservative government adopted a more radical approach of tight monetary policy. The overriding objective of the Thatcher administration was to reduce public expenditure not only for economic but also for ideological reasons. In a radical departure from post-war policy thinking, the major objectives of the neo-conservative approach were a reduction in tax rates, the privatisation of nationalised industries, a deregulation of the labour market and a curbing and significant restructuring of public welfare programmes. The welfare state was identified as being a burden on public and private resources and as being partly responsible for the economic crisis. Frequent attacks were made against the social security system (which had already started during the 1970s) as stifling private initiative and 'self-reliance' and fostering a 'dependency on the state' as well as being too complicated and inefficient (see Lister, 1989).

Apart from housing however, the attempt to reduce social spending largely failed in the government's first term in office due mainly to economic reasons (the increase in unemployment). Despite the discussed cuts in individual benefit levels, the overall spending on unemployment benefits doubled in the two years following 1979/80 (Barr and Coulter, 1990, p. 280). The real level of unemployment benefit as well as its share of average wages dropped significantly between 1979 and 1982 (*ibid*, p. 316) which was mainly caused by the abolition of ERS, the 5% cut in benefit rates in 1980 and, later by making benefits taxable in 1982. All these changes were parts of the Social Security (No. 2) Act 1980 which was deliberately aimed at reducing public expenditure but also at removing 'disincentives' to work caused by allegedly too high benefit levels in relation to wages.

Unemployed benefit claimants became the focus of the attack on cases of benefit fraud and abuse, the extent of which was deliberately magnified (but not empirically supported) and helped to justify cutting benefit levels and to legitimate the policy of reallocating resources towards claimants 'in real need',

discounting the unemployed. The apparently broad public acceptance of these arguments and the relative ease with which benefit cuts were implemented seems surprising at a time when unemployment was rising rapidly. However, the government was assisted by and made use of a number of factors. A general welfare backlash in the late 1970s was intensified by the onset of the recession and by ideological attacks made by the new government on a supposedly 'overproviding' welfare state which was detrimental, it was argued, to an economic recovery. A period of economic crisis (with a restructuring of the British economy including a 'shake out' of labour from an 'overmanned' industry) was portrayed as inevitable if international competitiveness were to be regained. The justification for the scope of unemployment was supplemented with the argument that the 'why work?' attitudes of the jobless themselves, which were fostered by allegedly too generous benefit levels, were to be blamed for remaining unemployed.

The politically portrayed need for a temporary but necessary reduction of wage levels and consequent implications of this in relation to benefit levels seems to have been persuasive in 1980. If wages were about to decrease, it was argued, unemployment benefits could not be spared. The perceived need to retain an 'adequate' difference between benefit and (low) wage levels in order not to undermine work incentives (less eligibility principle) was repeatedly emphasised by the government. The legitimisation for benefit cuts was further enhanced by the apparent 'all party' acceptance of making short-term benefits taxable and by arguing that the 5% cut in benefit rates was simply an 'interim measure' before the introduction of taxation was possible. With regard to ERS, the implicit agreement with the Labour Party over the reduced prominence of the supplement was relatively easy to maintain by referring to the Labour Party's neglect of the scheme during the 1970s. Outside Parliament, groups which might potentially have opposed cuts in unemployment benefit levels more forcefully, were preoccupied with policy changes which were apparently regarded as more important with regard to their clientele. The CPAG concentrated on the failure to uprate child benefits sufficiently and the TUC was primarily concerned with the clauses affecting strikers and occupational pensioners. There was therefore a lack of any powerful group which apparently had the ability or will to quickly oppose policy changes in the interest of the unemployed - at least if other changes are introduced simultaneously.

However, limitations to the drive against the unemployed with regard to its political legitimacy became apparent during 1981 and 1982. Further cuts in

benefits for the unemployed and a further postponing of the 5% shortfall in benefit levels, not least within the Conservative Party itself, became increasingly fragile when the impact of the Social Security (No. 2) 1980 became more obvious and unemployment and long-term unemployment continued to increase steadily. During the run up to the general election in June 1983 the restoration of the 5% benefit cut was eventually announced, but the focus on unemployed benefit claimants was not over by then, only suspended (see Chapter 8).

Constraints with regard to the objective to reduce individual benefit levels as well as total benefit expenditure might also have become apparent. As outlined above, one consequence of rising unemployment and long-term unemployment was a growing trend of increasing supplementary benefit coverage for unemployed claimants. This movement was accelerated by government policies of cutting insurance benefits, apparently consistent with stated objectives for allocating resources more selectively to those in need. Another outcome of benefit cuts was that between 1980 and 1982 insurance benefit levels for both single and married claimants actually fell below supplementary benefit rates. However, since administrative costs for means-tested supplementary benefits were comparatively higher than for insurance benefits (and provided a large part of the unemployed was eligible and claimed supplementary benefits), cutting insurance benefits with the aim of reducing public spending did not seem effective.¹ Despite some speculation and secret talks in Cabinet about decoupling the link between supplementary benefits rates and the rise in price levels, a cut in this 'last safety net' was apparently considered to be politically unfeasible. Thus, since supplementary benefits cover all claimants out of work and in need (including the unemployed), there were restrictions in the attack on curbing benefit expenditure as well as the living standards of the unemployed.² I will return to this and other considerations in the comparative assessment.

¹ However, according to interview information and recent government statistics (see Cm 1514, table 30 and 31, p. 39), the costs of administering an unemployment benefit (insurance) claim in 1988/89 and 1989/90 were actually lower than costs involved in dealing with means-tested income support.

² The possibility of, if not reducing the cost, at least transferring the provision of unemployment benefits from the state to other agencies such as voluntary organisations, trade unions or employers - which was implemented in the case of other insurance benefits (see Lonsdale and Byrne, 1988) - was discussed within Cabinet (O'Higgins, 1984, p. 131) but apparently dropped quickly, possibly on the grounds of inherent problems concerning the 'insurability' of unemployment (see Barr, 1988).

West Germany

As outlined in the previous chapter, the social-liberal coalition in West Germany failed to re-establish full employment after the mid 1970s. An increasing divergence of interests within the coalition became more pronounced especially with regard to economic policy, with the FDP becoming more free market oriented. Its main concern was to ward off any additional burden on the profitability of companies. For example, the proposal from the unions, which was also supported by some parts within the SPD, to introduce a labour market levy to increase resources for employment programmes was, successfully, opposed. Growing tensions within the coalition led to speculations about its potential break-up and the formation of a conservative-led coalition with the FDP. With regard to economic policy objectives there seems to have been increasing understanding between the CDU/CSU and the FDP. However, the Conservatives' choice to put forward the right-wing CSU Chairman Franz-Josef Strauß as candidate in 1980 ruled out any possible cooperation with the Liberal Party. The outcome of the general election in 1980 was important in two respects. Firstly the SPD/FDP coalition continued and secondly, the FDP's position was strengthened through an increase of its share of the votes to above 10% (see Appendix A).

This is the background for changes in unemployment compensation in the early 1980s, which turned out to be a period, as in Great Britain, of a 'crisis in the welfare state'. However, I will first briefly describe developments between the end of the period discussed in the last chapter and the onset of the economic recession in 1980/1. In the subsequent two sections I will analyse changes in unemployment compensation decided upon by the SPD/FDP coalition. The fourth section will reflect on benefit changes implemented after the break-up of the social-liberal government in September 1982 and the formation of a coalition between the CDU/CSU and the FDP under Chancellor Kohl. The discussion will show that within the overall period between 1981 and 1984 a large number of severe cut-backs in the unemployment compensation scheme were introduced, triggered off by annual deficits in the *Bundesanstalt* budget. In the concluding section I will demonstrate that, as a result, the notion of 'exclusion' from benefit coverage and 'differentiation' favouring better contributors (in relation to work records) became even more pronounced than in the mid 1970s. This has to be

explained with reference to the role of particular structural and institutional benefit arrangements influencing policy decisions and non-decisions.

1. Economic, political and legislative developments before 1981

As shown in the previous chapter, the West German economy had started to recover in 1976 and 1977 and this continued in the following years. Annual economic growth rates in 1978 and 1979 remained below those of the 1960s and early 1970s but indicated a sustained economic recovery after the crisis in the mid 1970s (see Chapter 4, figure 4.3). Schlüter (1984, p. 107) estimates that, due to expansionary programmes which contributed to the improvement in aggregate demand and production, some 150,000 to 200,000 jobs were created in 1977 and 1978. Unemployment was only slightly reduced however, from an average number of 990,000 people out of work in 1978 to 889,000 in 1980, while the number of job vacancies rose from 246,000 to 308,000 during the same period (*Arbeit und Sozialstatistik*, 1989, p. 84). Both the growth in the labour force, due to demographic reasons, and high rates of productivity, substituting labour for capital, apparently compensated the effects of expansionary programmes in reducing unemployment.

The increase in employment had a positive effect on the financial situation of the *Bundesanstalt*. The high level of unemployment and the obligation for the *Bundesanstalt* to pay contributions for unemployment benefit recipients to the state pension fund however resulted in a low annual surplus of 0.3 billion DM in 1977 and 1978 and a deficit of 2.2 billion DM in 1979. This reduced the overall reserves to 1.3 billion DM in the same year (see Appendix B, table 2) which is one of the reasons for the limited financial scope of a reversal in the cuts in labour market programmes implemented in 1975. The other was that both coalition partners refrained from either increasing the contribution rates to the *Bundesanstalt* or from adopting other options to raise receipts such as the introduction of a labour market levy for those groups (such as the self-employed and public sector employees) not contributing to the *Bundesanstalt*. The levy was repeatedly demanded by the unions but not unanimously supported by the SPD and strictly rejected by the FDP, which was anxious not to impose any burden on companies and their clientele (self-employed, professionals, etc.).

In August 1979 however the AFG was amended for the fifth time since its introduction in 1969 but the financial scope was limited with just 240 million DM (see Webber, 1982, p. 266). Hoppe (1979b) pointed out that a further change in the AFG had already been envisaged in 1977 when the Ministry of Labour was

asked by the Government to commission a study on the motivation of unemployed people returning to the active labour force and to consider whether the results would justify legislative action for improving the balance of labour supply and labour demand (Hoppe, *ibid.*, p. 255). Another impetus for the amendment was the ongoing campaign by employers' organisations maintaining that a high number of jobs remained vacant because some of the unemployed were not seriously interested in working. But it seems that the major intention behind the fifth amendment of the AFG was to alter a decree by the *Bundesanstalt* issued in 1978 (*Runderlaß* 230/78) which included more concrete and consistent regulations for local employment officers with regard to the question of 'suitable' job offers.¹ These rules were both more explicit and stricter than previous guidelines and triggered off a controversial debate in 1978 about the rights and duties of unemployed benefit recipients with regard to offered employment (see Klees, 1978, pp. 371). Protests, mainly by the unions, were raised against the decree which allowed for a quicker 'occupational downgrading' of people looking for work. Six months were granted to unemployed claimants during which they had to accept employment considered as 'suitable'. This implied work within the same level of qualification, and with an income not lower than 10% of that in previous employment. After that period the unemployed claimant had to accept offers which normally presupposed a lower level of qualification and after a year any kind of job had to be accepted or benefit was withdrawn.

The objective of the amendment was to soften the *Bundesanstalt* decree somewhat but also to regulate rights and duties more clearly. Its stated aim was to reduce problems of 'achieving a balance between labour supply and demand' (BT-Drs., 1979a) and to 'improve the availability and willingness of the unemployed' to return to the active labour force (*ibid.*, p. 18). The amendment provided higher allowances for some participants of vocational training and retraining courses and increased expenditure on vocational education and job creation programmes. Yet stricter regulations with regard to unemployed beneficiaries were implemented also. Local employment offices were required to 'invite' unemployed claimants every three months for an interview concerning options to terminate unemployment and measures were implemented which were aimed at specific groups of unemployed claimants. Students and pupils lost any right to unemployment benefits for the period of their education and 'equivalent activities' to insured employment, such as military service, were not regarded as

¹ The decree is, in part, printed in Klees, 1978.

rendering entitlement to *Arbeitslosengeld* or *Arbeitslosenhilfe* any longer. Thus, the 5th Amendment Act, in attempting to 'balance economic requirements with the needs of the unemployed' (Egon Lutz, SPD, BT-Drs., 1979b, p. 35) retained earlier two sided or dual legislation by improving labour market programmes somewhat, while also introducing more control measures for claimants and making access to benefits more exclusive.¹

By 1980, public support for the government and especially for the SPD had decreased. The fact that the proportion of the votes for the SPD in the October election remained roughly stable in comparison with 1976 was perhaps less due to its policy programme than to the decision by the CDU/CSU to nominate Franz Josef Strauß (CSU) as candidate and challenger of Helmut Schmidt after Helmut Kohl's popularity had decreased. This decision appears to have prevented an early break-up of the government. As indicated above, controversies within the coalition became more frequent once the FDP had started to adopt a more market-oriented approach in economic policy making and perceived itself as a 'neoliberal corrective' to the SPD (Schmollinger, 1984, p. 49). But the FDP was against any potential cooperation with the CDU/CSU if Franz Josef Strauß were to be Chancellor because of his political position towards the right of the party. The decrease of 4.1% of the votes for the opposition seems to have been attributable to some extent to their candidate, while the FDP's share of the votes rose to 10.6%, (its best result in a general election since 1961) which the Liberal Party regarded as a confirmation of their policies. Thus, while the SPD/FDP government continued under Chancellor Helmut Schmidt, its ability to find compromises between the coalition partners became even more fragile due to the strengthened position of the FDP. As the subsequent sections will demonstrate, especially with regard to economic policy making and a commitment to expenditure on existing welfare state programmes during the second economic recession, a policy consensus was increasingly harder to achieve within the present coalition and a potential cooperation between the CDU/CSU and the FDP became more likely.

2. The AFKG and *Operation*'82

The early 1980s saw a steep decline in economic activity. Annual economic growth rates dropped in 1980 and 1981 while inflation rates rose (see Chapter 4, figure 4.3 and 4.4). Accordingly, public revenue from taxation on production and personal income was reduced while expenditure, especially on social

¹ For details on the 5th AFG Amendment Act see Gagel, 1979, Hoppe, 1979b, and Knigge, 1979.

security payments (largely influenced by a sharp increase in unemployment during the winter of 1980/81), increased. The higher unemployment level at the beginning of the economic crisis in 1980 was not the only difference from the 1974/75 recession. There was also a negative balance of payments and a high level of interest rates. This was partly influenced by high interest rates in the United States which induced the *Bundesbank* to keep West German interest rates up in order to attract foreign capital and to prevent a further deterioration in the balance of payments. Expansionary fiscal policy was not seriously considered by the *Bundesbank* since that would have, in its view, jeopardised the position of the West German currency on international finance markets.

Individual SPD politicians argued in favour of an expansionary response to the crisis. The Government should increase net borrowing for financing additional employment programmes and other measures to support aggregate demand and economic production. But the FDP and the 'economists' within the SPD demanded cuts in public expenditure and a reduction in the net borrowing requirement by the state in order to improve conditions for private investments. This policy was given 'top priority' by Hans Matthöfer (SPD), the Minister of Finance (see *Die Zeit*, 11 September, 1981) and other cabinet ministers. Helmut Schmidt also argued that the introduction of cost-saving measures was a necessary policy reaction in order to 'adapt to changed circumstances' (BT-Verh., 3 June 1981, p. 2271). For the cabinet, it seems, cutting public expenditure was regarded as an appropriate political response to the economic crisis once again, not least because the consolidation of the Federal budget in 1975 was judged to be a successful policy which had contributed to economic recovery (see *Sozialbericht*, 1980, p. 109). Thus, the question for most members of the government was apparently not whether cuts should be implemented but where and how much of a saving should be made.

Because of the specific funding structure, rising unemployment had an immediate effect on the budget of the *Bundesanstalt*. Revenues decreased due to reduced contributions paid into the fund, while expenditure rose because of increased payments of unemployment benefits (Appendix B, table 2). Since alternative options to reduce debts (e.g. raising contributions sufficiently or introducing a labour market levy on groups who were not contributing to the system) stood against the government's economic policy doctrine, cuts in the *Bundesanstalt* were perceived as inevitable. Hans Matthöfer argued that expenditure in this section of public spending had increased most rapidly which

questioned 'the principle of covering benefits and programmes by contributions' and 'makes cuts simply inevitable' (BT-Verh., 16 September 1981, p. 2873).

The increase in the *Bundesanstalt* deficit was largely attributable to the steep rise in the level of unemployment which increased to 1.3 million in August 1981. Although the number of vacancies decreased to just over 200,000 in 1981, public concern about cases of benefit abuse did not seem to decline. Employer organisations repeatedly claimed that their members had problems recruiting workers and individual politicians, especially from the FDP, proposed a tightening in control procedures for unemployed claimants once again. Shortly after the election in 1980 the government reacted towards these demands by setting up a commission with the task of examining cases of benefit abuse and to assess options for savings within the AFG by applying stricter control measures. The commission made various proposals (see *Frankfurter Rundschau*, 19, 20, 22 and 23 June, 1981) and argued that between 200 and 300 million DM could be saved. More substantial cuts of 1.5 billion DM were proposed by the Federal Audit Office, which in December 1980, was asked by the Minister of Finance to suggest cuts within the AFG programmes. Proposals included a reduction in training allowances, an extension of benefit disqualification periods and a changed basis on which unemployment benefits were calculated (see *Der Spiegel*, 30 March 1981).

Individual politicians especially from the FDP argued that all options for cuts should be examined including a reduction in the level of unemployment benefits (see Günther Verheugen in *Der Spiegel*, 25 June 1981). Otto Graf Lambsdorff (FDP), the Minister of Economic Affairs, suggested that reduced and graduated levels of unemployment benefits should be considered (see *Frankfurter Allgemeine Zeitung*, 27 August 1981). He also complained that existing unemployment statistics did not allow distinctions between 'true' and 'false' unemployed benefit claimants, who 'put a strain on our social system and jeopardise it' (*Der Arbeitgeber*, 1, 1981, p. 32). He favoured a restriction in 'suitability' criteria and taxing unemployment benefits in order to stop 'unjustified privileges' for those out of work in relation to those in work. Similar suggestions were made by employer organisations such as the BDA (*Bundvereinigung Deutscher Arbeitgeberverbände*) who argued that 'excesses in the AFG' had to be curbed and that the level of unemployment benefits should be 'critically assessed' (see *BDA Pressedienst*, 2 October 1981 and *Wirtschaftsdienst*, 7, 1981, pp. 319).

A reduction of unemployment benefits was not on the SPD's agenda but the majority of SPD ministers were in favour of introducing stricter control measures for the receipt of benefits (see, for example, Hans Matthöfer in *Der Spiegel*, 30 March 1981 and 27 July 1981). Helmut Schmidt argued that it would be 'no retreat from the welfare state principle if privileges are withdrawn which (...) for reasons of social justice are no longer valid' (BT-Verh, 3 June 1981, p. 2270). Social policy experts in the SPD and particularly the unions were against any cuts within the *Bundesanstalt* budget. The DGB argued that the discussion about benefit abuses was used by individual politicians and employer organisations to justify cuts and to deflect from the actual reasons for the increased deficit. Financial difficulties had occurred because of high unemployment, resulting in increased payments of unemployment benefits to which people had a right, and because of the inadequate funding system of the *Bundesanstalt*. Instead of cutting programmes or increasing contribution rates (which was also opposed by employer organisations) the unions proposed once again a general labour market levy for all economically active people (see *Wirtschaftsdienst*, 7, 1981, pp. 322).

After lengthy discussions between the coalition parties, the government announced a package of cost-saving measures (*Operation '82*) which were implemented in January 1982 (see *Bulletin*, 8 September 1981, pp. 661). In general, cuts were justified by the need to adapt to the adverse current (and also expected future) economic situation which had decreased tax revenues and increased public spending. The overall aim was to 'significantly reduce' the net borrowing requirement for 1982 and the years after. Various cuts in spending programmes were proposed while investments for private companies would be given better conditions, largely by improving options for capital depreciation (see *ibid.*, p. 661).

Some of the main areas affected by *Operation '82* affected public sector employees with savings of one billion DM (salaries were reduced by 1% and no additional appointments were made), indirect taxation (1.7 billion DM), social security (child benefits were reduced - 1.5 billion DM) and *Sozialhilfe* payments (see below - 350 million DM).¹ The highest amount of savings however were made within the *Bundesanstalt* budget. Cuts were implemented amounting to 3.6 billion DM and contribution rates were raised to 4% which increased receipts by 5.6 billion DM. These changes were contained in the AFKG (*Arbeitsförderungskonsolidierungsgesetz* - Labour Promotion Consolidation

¹ For a fuller overview of *Operation '82* and the amounts of savings involved see *WSI Mitteilungen*, 1, 1982, pp. 42.

Act). Raising contribution rates even higher to prevent cuts within the AFG were favoured neither by the FDP nor by Hans Matthöfer for fear of increasing the financial burden on employers and employees. Even the implemented modest increase of 0.5% for employers and employees was offset by an equivalent reduction of the contribution rate towards the retirement pension fund, which was, at the time, in a comparatively better financial position. It is worth mentioning that this strategy for resolving financial difficulties within one social insurance fund (unemployment, retirement pensions or health insurance) by reducing the reserves of another was adopted frequently by both governments in the 1980s and was criticised by successive opposition parties for abusing the supposedly independent funds as a 'shifting yard' according to political expediency.

The AFKG's main objective was to reduce the financial subsidy from the Federal budget to the *Bundesanstalt* which for 1981 was calculated to be about 8 billion DM compared with 1.9 billion DM in 1980 (see *Bundesarbeitsblatt*, 10, 1981). Some of the proposed cuts had apparently been influenced by the proposals made by the Federal Audit Office and the Commission on benefit abuse (see above). However, proposals for cuts yielding a certain amount of savings were also made by the Ministry of Finance and passed on for consideration to the Ministry of Labour and Social Affairs. The latter was able to recommend changes but had to remain within the fixed financial scope. This led to a weighing up of, for instance, the amount of savings which could be made by extending the period of benefit disqualification against an introduction of waiting days.¹

Cuts affected both labour market programmes and unemployment insurance regulations. Expenditure on job creation programmes was decreased and short time working allowances as well as grants for training and retraining courses were reduced or, in some cases, converted into loans (for details see Hoppe, 1982). Other measures were explicitly justified by the need to combat abuse of the *Bundesanstalt* programmes.² The benefit disqualification period as a result of giving up a job 'voluntarily' went up from 4 to 8 weeks (initially 6 weeks were proposed by the cabinet, see Hickel, 1981, p. 1077) and the failure to report for a scheduled interview at the local employment office was sanctioned with a loss

¹ This information is based on an interview with a civil servant who was involved in the debate on priorities for cuts at the time.

² These affected employers too who, from 1982 onwards, had to contribute to the cost of the early retirement programme which had been set up in the mid 1970s for employees who were over 59 years of age and had been unemployed for more than a year (see Schäfer, 1988, pp. 368).

of benefit for two weeks instead of 6 days. Also, the *Bundesanstalt* was requested to formulate stricter 'suitability' criteria (see above) before April 1982. Furthermore, the minimum contribution period for qualification to *Arbeitslosengeld* was increased from 6 to 12 months and the 'original' *Arbeitslosenhilfe*, i.e. the benefit for those who received *Arbeitslosenhilfe* without having been in receipt of *Arbeitslosengeld* before (see Chapter 4), would be abolished altogether (BT-Drs, 1981a, p. 45).

At the first reading of the Bill, Eugen Glombig (SPD) justified stricter sanctions on unemployed claimants as an attempt to limit cases of benefit abuse which, as he argued, contributed 'towards a reduction of solidarity amongst employees' (BT-Verh., 17 September 1981, p. 3006). The level of unemployment benefits would remain untouched however because it would be 'purely cynical' to add further hardship to those who had had to suffer most from the economic crisis (ibid., p. 3007). Similarly, Heinz Westphal (SPD) maintained that the AFG would remain fully intact for those for whom the system was created (ibid., p. 2973). The CDU/CSU opposed the introduction of the AFGK mainly on the grounds of the intended increase of contribution rates to the *Bundesanstalt* and cuts inflicted on labour market programmes. Cost saving measures were perceived as inevitable but should be made elsewhere as Hansjörg Häfele (CDU) argued. He proposed that the basis for the calculation of unemployment benefits should be changed by discounting extra payments for overtime work, holiday and Christmas bonuses etc. (ibid., p. 2908). The plan to abolish the 'original' *Arbeitslosenhilfe* was rejected because it would mean a consolidation of the Federal budget at the expense of local authorities who would have to face higher expenditure on *Sozialhilfe* payments (see Helmut Kohl, ibid., p. 2927). The *Bundesrat* which, as the representation of the *Länder* governments, was dominated by the CDU/CSU in 1981, also argued against the abolition of the 'original' *Arbeitslosenhilfe* on the same grounds.

During the meetings of the Committee of Labour and Social Affairs, the CDU members repeated the idea of discounting extra payments from the definition of net income on which unemployment benefits were based. But this was rejected by Herbert Ehrenberg (SPD), the Minister of Labour and Social Affairs, who argued that because extra payments would be taken into account for contributions to the *Bundesanstalt*, they should also remain relevant for the calculation of unemployment benefits (see *Das Parlament*, 3 October 1981). However, due to a 'changed economic and financial situation' an almost identical suggestion to the one made by the opposition was put forward by representatives of the coalition at

a later stage. Thus, the proposal to disregard extra payments (overtime, bonus, premiums etc) from net earnings (as the determinant of unemployment benefits) was eventually included in the AFKG and implemented. This meant a real but also hidden cut in benefit levels since the nominal rates of *Arbeitslosengeld* (68% of net earnings) and *Arbeitslosengeld* (58%) remained unaltered. A reduction in these rates would have been regarded by the DGB as a 'declaration of war' (Engelen-Kefer, 1982, p. 81) and with the maintenance of the 'symbolic' levels of unemployment benefits, the SPD seemed to have avoided a major conflict with the unions. The DGB itself, anxious not to jeopardise the continuation of the government, appear to have accepted this late alteration and also higher contribution rates once again as a 'lesser evil' to direct cuts in benefit levels.

In November 1981 the Mediation Committee was convened to solve remaining disagreements between the *Bundestag* and the *Bundesrat* concerning, among other things, the question with regard to the planned abolition of the 'original' *Arbeitslosenhilfe*, which would have increased *Sozialhilfe* payments by local communities. A compromise was found when it was proposed that benefit not be abolished but the contribution period be increased, which rendered entitlement to *Arbeitslosenhilfe* from 70 to 150 days. Yet, any receipt of *Arbeitslosenhilfe* without previous periods of insured employment was abolished which affected unemployed school and university leavers in particular. This decision was an important factor for the decrease in the total number of *Arbeitslosenhilfe* recipients by half between 1981 and 1983 (Bieback, 1984, p. 263).

Another part of the *Operation'82* also affected unemployed people in two respects. Firstly, it ruled out 'existing tax irregularities' (Egon Lutz, BT-Verh., 12 November 1981) with regard to the receipt of previously taxfree unemployment benefits. During the year more frequent allegations had been made (see above) maintaining that some people would gain a higher annual net income if they had spells out of work for a limited period of time. Although these claims were shown as often being based on incorrect assumptions and inadequate calculations of annual earnings (see DIW, 1981), unemployment benefits were included in the annual adjustment of income tax from 1982 onwards, while benefit remained tax-free at source.

Secondly, unemployed people who were in need and without entitlement to payments from the *Bundesanstalt* were affected by cuts in the level of *Sozialhilfe*.¹ The increase in the level of *Sozialhilfe* was fixed at 3% annually for

¹ See Chapter 4 for the distinction between unemployment benefits administered by the *Bundesanstalt* and locally financed *Sozialhilfe*.

1982 and 1983 and 'extra needs payments' were also reduced. Although previous upratings had been insufficient for keeping the level of benefits in line with the rate of inflation (see Bäcker et al., 1989, p. 138), the implementation of fixed upratings was a retreat from the previous procedure of increasing benefit rates based on the anticipated rise in prices of the 'basket of goods' (see Chapter 4) and resulted in a further reduction of real income for *Sozialhilfe* recipients in 1982. Huster (1985, p. 202) argued that this decision, which was initiated by the *Bundesrat*, was intended to limit the rising costs for local authorities which would occur as a consequence of the cuts implemented in the AFKG.¹ I will return to this consideration later, when the number of 'excluded' claimants, i.e. unemployed people without entitlement to *Arbeitslosengeld* or *Arbeitslosenhilfe*, became a central issue in political debates. It should be noted however that *Operation'82* had already shed some light on problems resulting from high unemployment with regard to the 'compartmentalised' structure of benefits for people out of work in West Germany.

3. *Operation'83* and the break-down of the social-liberal coalition

In accordance with the government's request (see above), the self-administrative body of the *Bundesanstalt* issued new and stricter guidelines with regard to the question of 'suitability' in March 1982. The representatives of the unions voted against the new regulations which were characterised as absurd by the DGB at a time when about 2 million people were out of work compared with 130,000 registered job vacancies (see Möller-Lücking, 1982, p. 130). Representatives of employer organisations welcomed the amendments as 'adequate' alterations (Siegers, *Der Arbeitgeber*, 1982, pp. 204-206).²

During the course of 1982 the economic crisis deepened. The average annual unemployment level reached 1.8 million and economic output actually contracted (see Chapter 4, figure 4.3). Largely as a result of high and rising unemployment, an additional 5 billion DM of public expenditure was spent in 1982 while tax revenues were reduced by 2.1 billion DM (Tofaute, 1982, p. 442). The situation

¹ See also Glöckner (1982) who characterised the CDU/CSU as the 'fathers of the cuts' with regard to *Sozialhilfe* payments, to which the SPD had no choice but to submit (ibid., p. 471).

² Offered employment on the 'next lowest' qualification level became 'suitable' after a period of 4 months (previously 6) unless a claimant had been in employment for at least 6 years before becoming unemployed. Even within the first 4 (or 6) months, job offers below the claimant's qualification level were regarded as reasonable, if employment was on a temporary basis and did not affect the placement in a 'suitable' job. Five, instead of three, qualification levels were introduced and within an existing qualification level, earnings were regarded as 'suitable' which were at least 80% (previously 90%) of those in former employment. For more details see *Arbeit und Beruf*, 4, 1982; Karasch, 1983 and Klees, 1982a.

in the *Bundesanstalt* budget (see below) triggered off a similar debate to that of the year before. Further cuts, also in the rate of unemployment benefits, were demanded by individual FDP members and employer organisations. In March 1982 the Ministry of Labour and Social Affairs issued programmatical guidelines concerning the 'future of social security'.¹ The Ministry suggested a reorientation of the principles of social security and a shift towards more 'self-reliability', and cuts were proposed to curb 'existing excesses' within the current system. As far as unemployed claimants were concerned, a lower initial level of unemployment benefit was proposed which would be allowed to increase during the period of unemployment (see also *Handelsblatt*, 19 April 1982).

This was not in accord with individual social policy experts within the SPD, and MPs close to the unions in particular attempted to prevent further cuts in social spending. Wolfgang Roth, the deputy chairman of the parliamentary SPD, praised the unions for having shown restraint in previous wage bargaining rounds and warned that if a reduction of the level of *Arbeitslosengeld* 'from 68% to, for example, 63%' was intended, 'any option for a dialogue with the unions' would be lost (*Handelsblatt*, 16/17 April 1982). Heinz Westphal, who succeeded Herbert Ehrenberg as Minister of Labour and Social Affairs in April 1982, promised at a DGB demonstration on 1 May that a cut in unemployment benefits would not be implemented as long as the SPD was in power (*Sozialer Fortschritt*, 1982, p. 148).

The economic crisis induced the government pass a supplementary budget for 1982 and amend the financial planning for 1983. The *Bundesanstalt* deficit rose during 1982 and the subsidy from the Federal budget amounted to 7 billion DM at the end of the year (see Appendix B, table 2) despite the cuts which had been implemented a year earlier. Thus, by July the Cabinet had announced another package of cost-saving measures *Operation'83* and the *Bundesanstalt* deficits became once again the 'strategic starting point' (Adamy and Steffen, 1982, p. 687).

Contribution rates to the *Bundesanstalt* were raised from 4 to 4.5% (additional receipts of 3 billion DM) and, in order to reduce expenditure, the *Bundesanstalt's* obligation to pay insurance contributions to the pension fund and to the health insurance fund on behalf of its claimants was limited. The basis of these contributions was 100% of previous personal gross earnings. This was to be reduced to 70% which would save 2 billion DM of expenditure on the pension

¹ BDA (1982), 'Soziale Sicherung in der Zukunft. Leitlinien für die Soziale Sicherung unter veränderten wirtschaftlichen, sozialen und demographischen Bedingungen', Cologne.

insurance fund and 1.3 billion on the health insurance fund. Thus, as in the year before (see above), relatively inconspicuous cost-saving measures were proposed, facilitated by the separation of different social insurance funds. Lower contributions from the *Bundesanstalt* to the two other insurance funds were implemented with the aim of minimising subsidies to the *Bundesanstalt* to which the Federal government was legally obliged. These 'shifting yard' policies (see above) were carried out at the expense of insurance funds which were currently in a better financial position. In this way, the cost of unemployment was partly shifted from taxpayers (Federal budget) towards contributors to the respective insurance systems (with the prospect of higher contributions to maintain liquidity). However, unemployed claimants too were affected in the long term since lower individual contributions to the pension fund adversely affect the level of personal retirement pensions. As in the year before, other options to consolidate the *Bundesanstalt* budget, such as a levy on non-contributors to the fund which was repeatedly proposed by the DGB, was not seriously considered by the cabinet, not least because the FDP (but also the 'economists' within the SPD) rejected those suggestions.

Despite the compromise reached over the *Operation'83*, the FDP seemed dissatisfied with the outcome. Controversies within the coalition between the FDP and the SPD continued, and a break-up of the government seemed possible. Further tensions were created by Otto Graf Lambsdorff, the Minister of Economics, who was one of the most outspoken protagonists within the FDP of a more free market approach to economic policy and of severer reductions of public expenditure. In September he issued a document which he labelled a 'concept for a policy to overcome the lack of economic growth and to combat unemployment'.¹ In this 'manifesto for a market economy', the Minister warned that a 'clinging' to benefit payments could not be sustained any longer because this would lead to a 'redistributive state' and a 'crisis in the political system' (see *Frankfurter Allgemeine Zeitung*, 14 September 1982). He considered previous cuts in public spending to be useful but insufficient towards a policy of consolidation. In what later became a slogan used frequently by the new government, he demanded that 'achievements should again be better rewarded' (ibid.). With regard to social policy, specific proposals were made for further cuts, including a reduction of *Arbeitslosengeld* to 50% of the former net wage for the first three months of unemployment.

¹ Lambsdorff, Otto Graf (1982) *Konzept für eine Politik zur Überwindung der Wachstumsschwäche und zur Bekämpfung der Arbeitslosigkeit*, Bonn, mimeo.

This document triggered off the break-up of the SPD/FDP coalition. In a discussion with the parliamentary SPD, Helmut Schmidt described the paper as 'no basis for negotiations' (*Handelsblatt*, 16 September 1981) and Klaus Bölling (SPD), the government's spokesman, argued that Otto Graf Lambsdorff's suggestions were a 'clear rejection of the economic and finance policy of the government' (Bölling, 1983, p. 4). The SPD 'knew of course that the Minister of Economics' paper was intended and targeted to be a divorce document' (ibid., p. 57). Accordingly, on 17 September 1982 the SPD/FDP coalition broke up after the four FDP ministers had left the cabinet. An interim CDU/FDP¹ coalition took over until the general election, which was set by the new government for 6th March 1983.

Norbert Blüm (CDU), the new Minister of Labour and Social Affairs, announced that most of the saving measures planned for 1983 by the old government were to be incorporated in the *Haushaltsbegleitgesetz* 1983. There were some changes with regard to social policy however. The planned increase in the level of old age pensions was to be postponed from January to July 1983. The same delay would affect *Sozialhilfe* payments which were also to be increased by only 2% instead of 3% as had been stipulated in 1981.

In his inaugural speech for the interim government, Helmut Kohl, the new Chancellor, corrected forecasts which had been made by the former government with regard to both the expected unemployment level in 1983 (2.35 million instead of 1.85 million) and the expected rate of economic growth (zero growth instead of 3%), which was in line with predictions made by the Council of Experts and other institutes in October 1982. The Chancellor blamed the former government for the current crises in economic growth, in the employment situation and in the financial situation of the state and announced that success in the 'policy of renewal' would take several years to materialise (BT-Verh., 13 October 1981, p. 7215). With regard to social policy he argued that the principles of 'self help' and 'compassion' would be given more scope by the new government. Ideological positions with regard to public welfare programmes disclosed a similarity to notions emphasised by the Conservative government in Great Britain. Families, neighbourhoods and self-help groups, the Chancellor argued, were often in a position to provide better assistance than 'large and anonymous' institutions, not least with regard for creating more 'self-responsibility' (ibid., 7225). However, the less radical position compared with

¹ For convenience I use the term CDU/FDP but, again, it has to be borne in mind that this refers to the CDU/CSU/FDP coalition.

the Thatcher administration became apparent also. Rather than a search for non-state alternatives for welfare provision, a reduction of subsidies from general taxation to the separate schemes of social insurance system was a major objective in order to 'preserve the welfare state by strengthening its economic basis' (ibid., p. 7219).

Norbert Blüm expanded upon this point (BT-Verh., 15 October 1982). The government's intention was to give the social insurance funds 'greater independence', which would not mean 'privatisation' but a 'decoupling' from frequent legislation and the 'tutelage' and 'spoon feeding' by the state (ibid., p. 7423). The aim was to base the relation between the state and the social insurance systems on 'reliable criteria'. The first step in this direction was to alter the basis for contributions from the *Bundesanstalt* to the pension fund on behalf of recipients of unemployment benefits. Thus, the reduction of the basis for contributions to the state pension fund on behalf of unemployed claimants to 70% of individual earnings (as planned by the former coalition, see above) was to be decreased to the level of benefits instead, i.e. to 68% for recipients of *Arbeitslosengeld* and 58% for claimants of *Arbeitslosenhilfe* (see *Die Zeit*, 30 September 1981).¹

Another objective of the new government was to 'strengthen the principle of justice' with regard to 'benefits in return for contributions' (ibid., 7424). This was the justification provided by the government to orientate entitlement to *Arbeitslosengeld* more on individual contribution records and thus to strengthen the 'equivalence principle'. From January 1983 onwards the relation between the duration of entitlement to *Arbeitslosengeld* and the duration of the previous contribution record was altered from 1:2 to 1:3. Thus, a contribution period of 12 months would grant a benefit entitlement of 4 months (instead of 6 months). Accordingly, the maximum duration of entitlement to *Arbeitslosengeld* (which remained 12 months) was granted to those with a contribution record of 36 months within the past 4 years instead of 24 months within the past three years (see Hoppe, 1983, p. 34). The effect of this new change was a further reduction of *Arbeitslosengeld* coverage, excluding workers without a sufficient work record and therefore concentrating eligibility to *Arbeitslosengeld* even more on the allegedly 'deserving' unemployed. With expected savings of 100 million for 1983, this change had little effect on the overall reduction of the *Bundesanstalt* debt and consequently Norbert Blüm justified the amendment as providing

¹ Contributions from the *Bundesanstalt* to the health insurance fund were not altered (as had been proposed by the SPD/FDP coalition) but remained based on full previous earnings.

'social justice' to those workers 'who have contributed longer than others' (see *Wirtschaftsdienst*, 11, 1982, p. 534).

An increased public debt at the end of 1982 led the government to implement another set of cost-saving measures amounting to 5.6 billion DM. Cuts were made affecting student grants, child benefit and housing benefit, and charges were increased in relation with the health service provision (for details see Klees, 1982b, pp. 29). A growing deficit in the *Bundesanstalt* budget induced the government to raise contribution rates further than had been intended by its predecessor (by 0.6% instead of 0.5%, see *Bulletin*, 29 October 1989, p. 934). Additional cuts of 1.9 billion DM in the *Bundesanstalt* affected mainly labour market programmes. Somewhat surprisingly, the level of *Arbeitslosengeld* and *Arbeitslosenhilfe* remained unchanged and no further alterations were made with regard to either disqualification periods for benefit recipients or 'suitability' criteria.

These non-decisions might have been influenced by the lack of time for policy formulation and implementation, since the legislation had to be passed before the end of the year.¹ Also, the forthcoming elections in March 1983 might have influenced the decision not to cut the level of unemployment benefits. It is worth noting that public opinion with regard to alleged cases of benefit abuse had started to change. While in January 1981, 58% of the population believed that 'a large number of unemployed people did not want to work', the figure declined to 48% in March 1982 and to 40% in June 1982 when unemployment was rising to levels unprecedented since the 1950s (Noelle-Neumann and Piel, 1983, p. 453). This made it harder for the government to 'use' the debate on benefit abuse as an opportunity to legitimise further cuts concerning unemployment benefits. There appear to have been additional reasons upon which I will reflect in the following section.

4. The CDU/FDP coalition after the general election in 1983

During the run-up to the general election in March 1983 the government outlined its principles with regard to various policy areas (see *Bulletin*, 2 February 1983). Once again, priority was given to supporting the 'market economy' by improving the 'climate for investment'. The objective was a 'step by step' but 'lasting' policy for a consolidation of public budgets and also a

¹ According to Heiner Geißler, the general secretary of the CDU, 'less than four weeks for policy formulation' was the reason which prevented 'more differentiated solutions' (interview in *Der Spiegel*, 16 May 1983).

reduction of bureaucratic and other 'obstacles' for private investments (ibid., p. 124). Additional burden on either contributors to the insurance systems or taxpayers should be prevented (ibid., p. 127), whilst changes in the tax system were to be introduced to aid 'investments and innovations'. The CDU/FDP coalition government remained in power after the election. The CDU's share of the votes increased to 48% while the FDP suffered losses and received only 7% of the votes. The SPD's share was reduced also, to 38.2% and, for the first time since its constitution as a party, the Green Party managed to overcome the 5% barrier and entered the *Bundestag* with 5.6% of the votes.

Soon after the election a debate on further cost-saving programmes began. Gerhard Stoltenberg (CDU), the Minister of Finance, suggested another round of cost-saving measures which would also affect the *Bundesanstalt* since debts in its budget started to rise again. A reduction of *Arbeitslosengeld* to 62% and of *Arbeitslosenhilfe* to 52% were discussed. In May 1983 the cabinet decided to reduce expenditure on both training programmes and unemployment benefit provision. Among other changes in relation to benefits, unemployed job starters were affected by a reduction in the basis of their benefit entitlement to 50% of the expected wage in a particular profession (or the former training allowance, whichever was higher). Also, the level of *Arbeitslosengeld* was cut to 63% and of *Arbeitslosenhilfe* to 56% but only for claimants without children. The decision to spare parents was justified as an example of the CDU's commitment to family policy, 'for a 28-year-old single person a reduction in benefit sounds feasible and reasonable' (*Die Zeit*, 16 May 1983). The emphasis on claimants with children (for whom the material situation did not improve), and the concentration on a particular and allegedly less deserving group of unemployed (which apparently made a legitimation for a reduction of benefits politically easier) seem relevant. But there are other considerations which help to explain why a more substantial cut in unemployment benefit levels was not introduced despite repeated demands from FDP (and some CDU) politicians for a more severe reduction of benefit levels in the years before.

Although the new government maintained that welfare state provisions were a major cause for the continuing economic crisis and financial problems of the state, the debate on benefit abuse had subsided by 1983 (see Peter, 1989, p. 46) and could apparently no longer be used as a legitimation for cuts. Unemployment was still rising in 1983 and reached an annual level of 2.26 million. Also, long-term unemployment increased (see Chapter 4, figure 4.7) which can, at least partly, explain a decline in the proportion of unemployed claimants in receipt of

Arbeitslosengeld (see Chapter 4, figure 4.2). Although their absolute number rose from 926,000 in 1982 to 1.014 million in 1983 (plus 9%), less than half of the registered unemployed received *Arbeitslosengeld* in 1983. Also, for the first time since 1980, the average level of *Arbeitslosengeld* declined, in nominal terms, while the average level of *Arbeitslosenhilfe* increased. This might reflect an increased number of (previously better paid) claimants who had exhausted their entitlement to *Arbeitslosengeld* and subsequently had to resort to *Arbeitslosenhilfe*. A cut in benefit levels was, according to opinion polls, rejected by just over half the population in 1983 (see Patzelt, 1984, p. 101).

Stricter eligibility criteria for both types of insurance benefits, implemented in the previous two years, seemed also to have contributed to an increasing number of unemployed people with entitlement to neither *Arbeitslosengeld* nor *Arbeitslosenhilfe*. This led to a growing number of unemployed who had to resort to locally administered and financed *Sozialhilfe* (see Appendix B, table 3). Additionally, there was a rising number of recipients who, due to a low individual level of *Arbeitslosengeld* or *Arbeitslosenhilfe*, received *Sozialhilfe* at the same time, indicating the impact of high and sustained unemployment especially on claimants who had previously been in low paid work. These developments became even more pronounced after 1983 (see Chapter 8) and were repeatedly pointed out by representatives of local authorities who disagreed with a cut in unemployment benefit levels. Also the DGB started more frequently to highlight the material impact of unemployment on families (see below).

There was also some disagreement within the coalition government. The Ministry of Labour and Social Affairs especially had reservations about the implementation of a general cut in benefit levels. Before the decision was made in Cabinet, Norbert Blüm, on the left wing of the CDU and a union member, agreed that selective cuts could be introduced but rejected the idea of a general reduction in unemployment benefit levels. In an interview (*Die Zeit*, 1 April 1983) he argued that the individual level of *Arbeitslosengeld* was rarely 68% of the former actual net income for unemployed claimants but often below 60%, and the 'average monthly level of *Arbeitslosengeld* of 975 DM was no luxury but rather low enough' (ibid.).¹ Wolfgang Vogt (CDU), the Parliamentary Secretary at the Ministry of Labour, argued that a general cut in *Arbeitslosengeld* and *Arbeitslosenhilfe* would merely shift the financial burden of unemployment to local authorities who would face increased expenditure on *Sozialhilfe* payments (*Die Zeit*, 15 April 1983). This was echoed by representatives of local authorities

¹ The average monthly income for employees was 1941 DM in 1983 (Welzmüller, 1989, p. 362).

and (also CDU-governed) municipalities who opposed a reduction in unemployment benefits and pointed out that expenditure on *Sozialhilfe* had already increased in the previous years which was also a result of cuts in social security benefits such as housing benefit and unemployment benefit (see *Der Spiegel*, 18 March 1983).¹

The justification for this and other cost-saving measures introduced by the new coalition in 1983 (and implemented in January 1984) resembled the one which had been used by its predecessor in the two previous years. The government argued that the most important condition for the preservation of existing and the creation of new jobs was a reduction of public expenditure and a strengthening of private investments (see *Sozialpolitische Umschau*, 15 July 1983). Thus, in order to prevent increasing subsidies to the *Bundesanstalt*, which would have to be financed by additional borrowing or increased taxation (both of which were against the coalition's austerity policy), costs would have to be saved. However, another increase in contribution rates, rejected by the FDP and the CDU as involving too heavy a burden on companies, was not on the agenda. Instead, higher revenues to the *Bundesanstalt* of 935 million DM for 1984 were expected from a stricter integration of 'extra payments' into the basis for contributions and from treating sickness benefit as income on which contributions to the *Bundesanstalt* would have to be paid.²

According to the government, as in the years before, it was again the 'difficult financial situation' of the *Bundesanstalt*, which made cuts, amounting to 1.6 billion DM, 'inevitable'. The reduction of *Arbeitslosengeld* (together with complementary reductions in other allowances) was the highest single cost-saving item on the list with 940 million DM, while the reduction of *Arbeitslosenhilfe* saved 115 million DM. Despite a pre-election commitment to labour market programmes as an 'important and active contribution to reduce the imbalance in the labour market' (*Bulletin*, 2 February 1983), allowances for vocational training, further training and other programmes were also cut although amounting to a lower overall reduction in expenditure (115 million DM) than changes which affected unemployment benefits (for details see Hoppe, 1984).

¹ For an overview and evaluation of changes implemented in different social security areas between the mid 1970s and the mid 1980s see Bieback, 1985 and Alber, 1986.

² Sickness benefit is paid to employees after the first six weeks of illness during which employers have to continue to pay full wages. The level of the benefit is 80% of the former gross wage with an upper limit of 100% of net income (see Bäcker et al. 1989, p. 90). This change had a positive effect for unemployed claimants who fell ill before fulfilling the minimum contribution period for entitlement to unemployment benefits, since the duration of illness was, from 1984 onwards, treated as contribution time.

Possibly influenced by the increase of unemployment over the two million mark, the issue of high unemployment and its implications received more public attention from mid 1983 onwards. Individual CDU politicians issued pamphlets discussing 'solutions' to the problem of unemployment. In order to lift the cost burden from employers, more flexibility in wage negotiations and a relaxation of labour law regulations were proposed (see Klees, 1985, pp. 117). With regard to unemployed claimants, different proposals including 'offers' of voluntary work were made. I will return to these proposals in the next section, but one policy change in response to high unemployment should be noted before concluding this section. In 1983, *Gastarbeiter* were 'encouraged' by the provision of financial assistance to return to their home countries (*Bulletin*, 28 June 1983). A fixed sum of money was granted to workers, who, due to a closure of their company, were made redundant or were working short time. Additions were paid for each child but the full allowance was granted only to those who applied immediately after having become unemployed and was reduced for each month of remaining jobless.¹

Unemployment also became a focus for a number of demonstrations in 1983. In June a 'week of action' and a 'march in Bonn' were organised by unemployment initiatives and groups. While the turnout with regard to the expected attendance was disappointing, by the end of the year the number of unemployment initiatives had risen to over 500 (see *Die Zeit*, 9 December 1983). Facing problems with regard to organisation, cooperation and membership however, and also due to disagreements concerning political objectives and strategies, the impact of these groups on public policy remained marginal (see Grottian and Paasch, 1984). But by 1983 the unions too had started to highlight more intensively the problem of high unemployment with regard to the material implications for jobless people. The DGB launched a campaign against the ongoing policy of 'social demontage' (see *Soziale Sicherheit*, 10, 1983) and a study, which was financed by the DGB, demonstrated the extent of the ongoing 'exclusion' of unemployed claimants from entitlement to *Arbeitslosengeld* and transferral to the means-tested systems of *Arbeitslosenhilfe* and *Sozialhilfe* (Balsen et al., 1984). The growing interest of the unions in social security arrangements for the unemployed might have been influenced by the awareness that not only 'peripheral' workers (job starters, people, especially women,

¹ The programme did reduce unemployment by 11,000 people in 1984 (against 270,000 unemployed *Gastarbeiter* in 1983) but by 1988 only 36,000 workers, including family members, had returned to their home countries. This was much lower than had been expected which was the main reason why 'this type of labour market policy was not continued' (Schäfer, 1988, p. 371).

returning to the active labour force, casual labourers and others) were adversely affected by the employment situation. Also workers in 'standard employment relationships' (Hinrichs, 1991) found it increasingly hard to return to the labour market after a spell of unemployment. The DGB argued that as a result of increasing processes of the 'exclusion' of workers from entitlement to insurance benefits, the scope of 'new poverty' (Balsen et al., 1984) was growing.

Norbert Blüm denied that problems of 'new poverty' and 'exclusion' existed. Neglecting difficulties of attaining access to *Arbeitslosengeld* or *Arbeitslosenhilfe* in the first place (and also of growing long term unemployment), he maintained that it was only a small minority of unemployed who had to resort to *Sozialhilfe* as an additional or only source of income maintenance during unemployment. Previous income had to be below the 'lowest standard wage in the textile industry', he argued, before the level of *Sozialhilfe* would be above the rate of unemployment benefits (see *Der Spiegel*, 26 December 1983). However, the debate about processes of 'exclusion' from unemployment benefits became even more pronounced from 1984 onwards. It also sparked off a discussion in social science over the adequacy of existing social security arrangements. I will reflect on both in the next section.

5. Conclusion

The political context in which changes in the benefit structure for unemployed claimants were implemented in the early 1980s resembled that in the mid 1970s. Fiscal considerations, due to annual deficits in the *Bundesanstalt* budget, became the starting point again. As in the mid 1970s, a policy of reduced state borrowing and cuts in public expenditure was adopted with the objective of encouraging private investment, perceived as the major remedy for a revival of economic activity. Due to its specific structure and funding system, rising unemployment had an immediate effect on the budget of the *Bundesanstalt*. Revenues decreased because reduced contributions were being paid into the fund, while expenditure rose due to an increase in payments of unemployment benefits. Legal regulations required that the Federal government subsidise the *Bundesanstalt* in order to balance its budget. Since alternative options to reduce debts (e.g. raising contributions sufficiently or introducing a labour market levy on groups who were not contributing to the system) stood against the government's (and in particular the FDP's) economic policy doctrine of alleviating production costs, cuts in the *Bundesanstalt* were perceived as inevitable. However, while the combination of the economic (and labour market) crisis, the adopted policy of

reducing public expenditure, and its particular funding system can explain the 'fiscal functionalisation' of the *Bundesanstalt*, i.e. the subordination of unemployment benefit payments and labour market programmes under a policy of consolidation (Schmid et al., 1987, p. 28), this does not determine why cuts were made on specific sections within the AFG.

The sharp rise in unemployment figures in 1980/81 caused a steep increase in benefit payments, since most of the newly unemployed claimants were entitled to *Arbeitslosengeld* (see Chapter 4, figure 4.). The resulting deficit at the *Bundesanstalt* was considerably higher than the one in 1975. In order to reduce subsidies from the Federal government to the *Bundesanstalt*, a rise in contribution rates was introduced and more substantial cuts were made which not only affected labour market programmes but also unemployment benefit provisions. Instead of a general reduction of unemployment benefit levels, which would have been the most effective cost-saving measure, specific cuts, affecting particular groups of unemployed people, were implemented and justified (or at least linked) to the need to combat cases of abuse and unreasonable receipts of benefit (see Brötz, 1983 and Bosch, 1981). However, in the attempt to reduce public expenditure, the government not only made use of the public debate on 'excesses' in the welfare state, it was also anxious not to jeopardise its relation with the unions. Access to entitlement to *Arbeitslosengeld* and *Arbeitslosenhilfe* became more restricted by raising respective minimum contribution periods for qualification, and entitlement to *Arbeitslosenhilfe* was abolished altogether for any groups without periods of insured employment. This strategy avoided major political resistance since it did not affect the DGB's prime clientele (workers with lengthy employment biographies) but did exclude 'peripheral' employees without, or with shorter or interrupted, contribution records (job starters, employees in irregular forms of employment and women returning to the active labour force) from coverage of *Arbeitslosengeld* or *Arbeitslosenhilfe*.

However, the scope of the deficit in the *Bundesanstalt* budgets in 1981 appears to have become too large, and so the government also reduced the level of unemployment benefits by altering the definition of net income on which rates were based. While this change affected all unemployed claimants (as long as they had received extra payments when in work) the 'symbolic levels' (Patzelt, 1984) of 68% (*Arbeitslosengeld*) and 58% (*Arbeitslosenhilfe*) remained unchanged. Apparently, the concealed nature of this cut, in addition to the fact that it was decided at a very late stage in the implementation process of the AFKG, prevented a major conflict with the unions. But the DGB was also reluctant to

embark on a serious controversy with the government because it perceived a coalition which included the SPD as advantageous with regard to its interests compared with a potential CDU government.

The consolidation of the Federal budget continued to be the major legitimation for proposed cuts in public expenditure from October 1982 onwards, when a CDU/FDP government took over. With regard to the *Bundesanstalt*, there was no real break in actual policy making, notwithstanding the fact that the conservative-liberal coalition considered reduced benefits more of a 'virtue' while the social democrats had put forward 'economic constraints' as a justification for cuts (see Hoffmann, 1987, p. 359).

The new government continued the policy of 'exclusion' from *Arbeitslosengeld* and concentration on the 'deserving' unemployed when benefit entitlement became dependent on longer contribution periods. While the SPD had defended the introduction of more exclusive *Arbeitslosengeld* coverage as a cost-saving necessity, the new coalition legitimised its policy as 'socially just'. It was argued that the right to benefit entitlement should reflect individual contributions more. Also, reduced subsidies from the Federal budget to the *Bundesanstalt*, which resulted in the transfer of the cost of unemployment from taxpayers to employees and employers (higher contributions) and the unemployed (reduced benefits or exclusion from entitlement), was ideologically justified as a policy which would give the *Bundesanstalt* greater 'independence' by 'decoupling' it from the state. Thus, in the event of deficits, the *Bundesanstalt* should apparently not expect 'external' help but, in an attempt to reduce costs, would have to increase contributions, to reduce benefit levels or to tighten the relation between contributions and benefits and to exclude 'bad risks'. The result of the policy of strengthening the equivalence principle (between individual contributions and benefit entitlement), but also of changes introduced earlier by the SPD/FDP government, was to reduce elements of solidarity within the unemployment insurance system between workers less affected by the incidence of unemployment and those more affected by it.

In the social-liberal coalition a direct cut in benefit levels had been propagated by individual FDP politicians but rejected by the SPD. In 1983 the CDU/FDP coalition decided to reduce unemployment benefit rates. However, despite earlier demands by the FDP (and parts of the CDU), a general cut was not introduced. The debate on benefit abuse had abated by 1983 and could apparently no longer be used as a legitimation for cuts. By 1983 unemployment exceeded the two million mark and the number of job vacancies had declined further which seems

to have induced a change in public opinion. The DGB highlighted the material impact of unemployment on families and the low (and declining) level of *Arbeitslosengeld* recipients more frequently. This was an issue which was also emphasised by the Ministry of Labour and Social Affairs. Finally, and perhaps most importantly, due to the continuing high level of unemployment and cuts implemented in social security benefits in the years before, expenditure on *Sozialhilfe* by the municipalities had increased (although the value of the standard rate of *Sozialhilfe* was reduced). Thus, legitimised as 'socially just' and family oriented, benefits were reduced only for unemployed claimants without children, which limited the additional financial burden on local authorities.

It is noteworthy that at a time when unemployment (including youth unemployment and long term unemployment, see Heinze, 1984) increased to levels unprecedented since the 1950s, policy decisions concerning benefit regulations were not influenced by the situation of those affected by it. Unlike 1966/67 (and to some extent also 1974), when the rise in unemployment had the effect of widening the coverage of unemployment benefits and of increasing levels of benefits, the high number of people out of work in the early 1980s did not have the same consequences. Apparently, lessons had been learned from the time following 1975 which proved that even a high level of unemployment did not pose a particular political risk and was compatible with benefit cuts if implemented selectively. Within the existing organisational and structural context of benefit provisions and the prevailing economic doctrine (adopted, more or less enthusiastically, by all three major parties) which gave priority to a consolidation of public expenditure, cuts in the AFG, which this time included reductions of benefit rates, were justified by governments as inevitable mainly for financial reasons.

Employer organisations also favoured the curbing of 'excesses' in the welfare state by reducing public expenditure and especially the lowering of unemployment benefits, which would improve their bargaining position in wage negotiations. The DGB's main concern was to protect the living standard of its clientele without jeopardising the continuation of a SPD-led government. Thus, it opposed increases in contribution rates to the *Bundesanstalt* but also rejected a general reduction in benefit levels, which would undermine the wage replacement function of unemployment benefits, not least with regard to the wage structure of those currently employed (see Ganssmann, 1991). Finally, local authorities protested against increased expenditure on *Sozialhilfe* payments. It seems that financial considerations of the municipalities did not only have a

strong impact on the decision in 1981 to reduce the standard *Sozialhilfe* level, but were also most influential in preventing a total abolition of (original) *Arbeitslosenhilfe* in the same year, and a general and more severe cut in *Arbeitslosengeld* and *Arbeitslosenhilfe* levels in 1983.

With regard to its stated objectives, the successive consolidation measures implemented between 1981 and 1983 were successful (see Bosch, 1984). In 1983 the subsidy to the *Bundesanstalt* was less than had been anticipated at the beginning of the year and in the following years the *Bundesanstalt* accumulated reserves while unemployment remained high. Those who lost out as a result of policies were the contributors to the *Bundesanstalt* and local authorities, but mostly the unemployed themselves. However, the majority of the unemployed were, until 1983, only marginally affected by 'hidden' cuts in benefit levels. As outlined earlier, the real victims of the changes were groups outside the 'core' labour force such as job starters, women, casual labourers and others. By 1984 all claimants (without children) had suffered a loss in their benefit rates, and the problem of exhaustion of *Arbeitslosengeld* entitlement had become more pronounced. The process of exclusion of claimants from *Arbeitslosengeld* into *Arbeitslosenhilfe* and *Sozialhilfe* (or into families' subsistence) became even more a focus in the political debate in the mid 1980s (see Chapter 8). The discussion so far has shown that policy outcomes in the early 1980s have to be related to the particular departmentalised structure of benefit regulations in West Germany. This issue will be illustrated further in the comparative interpretation.

Comparative assessment

The curbing of public spending in the early 1980s was ideologically supported by criticism against the size of the welfare state in both countries, proclaimed as adverse to private initiative and self-help, and creating discentives to work. However, policies were more radically pursued by the Conservative Party in Great Britain, facilitated by a strong majority in the House of Commons. The composition of governments in West Germany required compromises between the SPD (and later the CDU) with the junior partner FDP. Anti-welfare arguments similar to those of the Thatcher government within the West German administration were made predominantly by the FDP, who, since the mid 1970s, had increasingly adopted a free-market approach, whilst a majority within the SPD referred to economic constraints as the major justification for curbing

social spending. Even compared with its later conservative coalition partner, often it was the FDP rather than the CDU which adopted ideological positions with regard to social security benefits in particular, which came closer to the position adopted by the Thatcher government.

The economies in both countries were severely affected by the second oil price shock in the early 1980s. Economic indicators (see Chapter 4) show remarkably similar developments, with the difference that in Great Britain, already economically in a less favourable position, the onset of the recession seems to have occurred earlier and its extent was more severe. Economic growth rates slumped sooner and also to lower levels, inflation rates accelerated more quickly and reached higher annual averages and unemployment (and also long-term unemployment) started to rise earlier and reached higher levels than in West Germany. However, Keynesian demand management had been discredited by policy makers as an inappropriate policy response at least from the mid 1970s in both countries and in the early 1980s both governments reacted to the economic crisis with deflationary policies. The struggle against inflation and the focus on private investments as a return to economic growth and stability and the need for reducing public expenditure were given priority over the maintenance of high employment levels.

In both countries the situation for unemployed claimants worsened between 1979 and 1983, with the respective benefit systems becoming less generous and more selective. However, in Great Britain the living standard for all unemployed recipients of insurance benefits declined. This was caused by a single Act which introduced a general cut in benefit levels and the abolition of the ERS. In West Germany on the other hand, successive annual changes, triggered by annual budget deficits in the *Bundesanstalt*, caused an increasing exclusion of specific groups of benefit claimants from the coverage of *Arbeitslosengeld* and *Arbeitslosenhilfe* while workers with long and continuous labour market attachment were (apart from the 'hidden' cut in benefit rates in 1982) hardly affected by the alterations made. Even the decision to cut benefit rates in 1983 'only' affected claimants without children. These different policy outcomes can be related to political factors - which largely influenced the direction and the scope of benefit changes - but also institutional variables - which very much determined the type of change as well as constituting the context and constraints for political decisions.

The reduction of public expenditure was one objective of the Social Security (No. 2) Act 1980 in Great Britain, but the latter was also directed at minimising

alleged disincentives to work by reducing benefit levels. In West Germany on the other hand, it seems that arguments of 'cutting down wild growth' and combatting cases of benefit fraud were largely made as a justification for reducing specific expenditure (i.e. subsidies from the Federal budget to the *Bundesanstalt*) which was the dominant policy objective. While it can be argued that the Conservative government in Great Britain perceived the general reduction of benefit levels as a vital component of its neo-liberal economic policies of reducing wage levels in order to assist private sector profitability, it seems questionable whether the cuts in the *Bundesanstalt* budget which were decided upon in 1981 and 1982 would have occurred if no (or lower) deficits had occurred. Within the West German government, only the FDP, it seems, proposed benefit reductions for ideological reasons similar to those prevalent in Great Britain at the time. The SPD, influenced by the position of the DGB, rejected direct cuts in benefit rates and justified restrictions on grounds of a perceived need to consolidate the *Bundesanstalt* budget. A CDU/FDP coalition might have introduced a general cut in benefit rates for reasons of reducing work 'disincentives' since policy objectives concerning unemployment benefits seem to have been similar between the two parties until 1982.

However, the SPD's policy of introducing selective restraints rather than a general reduction in benefit levels can, as outlined earlier, not simply be presented as party policy priorities. The strategy of introducing selective restraints rather than a general reduction in benefit levels has to be related to the position of the DGB. The trade unions signalled that a continuation of the cooperation with the SPD-led government was made conditional on retaining the rates for unemployment benefit levels. By comparison, the Conservative government in Great Britain was not dependent on the TUC's compliance. On the contrary it adopted a confrontational policy towards the unions, which were identified as responsible for wage rigidities and workers 'pricing themselves out of jobs'. Thus, an attempt was made to reduce the unions' influence. However, the ease with which ERS was abolished and benefit cuts were implemented reflects also the TUC's comparatively low priority regarding unemployment insurance benefits. This might be, at least in part, attributable to the different type of and traditional significance afforded to insurance benefits (and particular earnings-related benefits) in both countries. The DGB has always regarded unemployment insurance benefits both as 'earned' through the payment of contributions and as 'wage replacement' benefits maintaining, at least to some extent, accustomed standards of living during a period out of work. Thus, the

contributory tradition (and the equivalence principle between contributions and transfers) has always been strongly defended. In contrast, insurance benefits as the single form of compensation for unemployment have never been dominant in Great Britain (despite other plans, see Beveridge, 1942) and the principle of earnings-related unemployment benefits was even less important during its short period of existence between 1966 and 1982.

However, the reason why no general and stricter cuts in benefit levels were introduced in West Germany after a conservative-liberal coalition took office seems to have been less influenced by the unions. As in Great Britain, by 1982/3 unemployment had reached the two million mark and long-term unemployment was still increasing. The experience of unemployment was more widespread and public attitudes became apparently more sympathetic towards the unemployed in both countries. Thus the political feasibility of using the debate around social security abuse for cutting benefit levels was reduced. In Great Britain, benefit levels were restored - not least due to growing pressure within the Conservative Party itself - and in West Germany the Ministry of Labour and Social Affairs rejected proposals for a universal cut in benefit levels. However, the importance of the institutional structure of benefit arrangements in West Germany became apparent. While the government succeeded in reducing subsidies from the Federal budget to the *Bundesanstalt*, it became obvious that an increasing financial burden of unemployment was transferred to (also conservative-led) local authorities who faced higher expenditure on *Sozialhilfe*. As a result, municipalities started to act as an effective countervailing pressure against further cuts in benefit provision.

As indicated above, the reduction in public expenditure was a main policy motive in both countries, but the importance of the institutional context for the financial debate in the two countries concerning benefits for unemployed claimants should be noted. In West Germany, alternative solutions to the financial crisis beyond the confines of the *Bundesanstalt* were not seriously considered. Reactions to annual deficits in the *Bundesanstalt* fund led to a manipulation of earmarked contribution rates and expenditure on labour market programmes and unemployment benefits. In Great Britain, national insurance contribution rates were sharply increased in the early 1980s. However this was part of a wider policy to compensate for a loss of state revenues due to a reduction in income tax rates and for the funding of increased social security expenditure. In short, there were significant differences in the perception of the problem (how to reduce social spending in general in Great Britain rather than

how to balance the budget of a separate insurance fund in West Germany) and its solution (across the board cuts rather than reducing benefit and labour market provisions for specific groups of the unemployed). Accordingly, the outcome of the pursuit of reducing expenditure on unemployment compensation was different. In Great Britain, expenditure increased on both insurance and, far more, on supplementary benefits for unemployed claimants. In West Germany the *Bundesanstalt* budget was almost consolidated by 1983 and the level of insurance benefits per claimant remained largely unchanged for those entitled to it. Insurance coverage became more concentrated on 'better' contributors while workers with less stable work careers were increasingly excluded. This 'solution' within the framework of the *Bundesanstalt* was politically feasible for the SPD/FDP government since peripheral employees, who were primarily affected by the changes, represented less of a political risk than unionised workers whose benefit levels and entitlement remained largely unaffected. The CDU/FDP coalition justified changes ideologically by arguing that for reasons of social justice, better contributors should be compensated more fully.

In both countries, the dependence on means-tested assistance benefits became more widespread with the beginning of the 1980s due to rising unemployment and especially long-term unemployment and the subsequent exhaustion of eligibility to unemployment benefit and *Arbeitslosengeld*. Also in both countries this trend was politically enforced. In Great Britain the reduction of insurance benefit rates resulted in a growing number of unemployed who had (additionally or solely) to resort to supplementary benefits while in West Germany the strengthening of minimum contribution conditions made access to the insurance system harder. It can be argued that the social security provision in both countries became more concentrated on allegedly deserving claimants provided a different notion of desert is applied (expressing characteristic national traditions of welfare principles). In Great Britain the reduction of unemployment insurance benefit levels and the abolition of ERS was supposed to be consistent with the proclaimed aim of distributing scarce resources to those in 'real need'. In contrast, in West Germany the strengthening of the contributory principle concentrated benefit provision more on those with better work records who, as longstanding contributors, 'deserved' to be compensated better than others. As a result, the benefit changes introduced in the early 1980s in Great Britain and in West Germany caused a further divergence rather than convergence between respective national benefit arrangements.

In sum, in the early 1980s the impact of distinct institutional arrangements and policy legacies became apparent once again. For example, the discussion has shown that due to the role of the *Bundesanstalt* as an agency outside of the government the framework for debates and perceived policy options was circumscribed. Also, the traditional principle of 'equivalence' between contributions and earnings-related benefits was strongly defended by unions and narrowed the range of seriously considered policies in response to budget deficits. It can be argued that the lack of both a similar separate institution and a tradition of earnings-related unemployment benefits eased the implementation of policy decisions made by the new government in Great Britain. The resistance against the imposed cuts in benefit levels and against the abolition of ERS on the part of the TUC, but also other groups, was conspicuously weak. Additionally the lack of local pressure in Great Britain became obvious. As demonstrated, due to institutional funding and administrative arrangements, local authorities in West Germany acted as an additional factor inhibiting further benefit restrictions. Thus, while the ideological fervour was undoubtedly stronger on the part of the new British administration compared with social-liberal but also conservative-liberal coalition governments in West Germany, changes in unemployment benefit regulations have to be related to the influence (or lack of influence) of institutional structures and the role of policy legacies facilitating or constraining policy options.

Chapter 8

Benefit changes under established conservative hegemonies - the second half of the 1980s

This final period covers the second half of the 1980s in both countries. The analysis does not go beyond 1989, which is the last year before West and East Germany were united.¹ As in the previous three chapters, there were some important similarities in the two countries but also differences. Firstly, conservative or conservative-led governments prevailed throughout the whole period. Their hegemony was reestablished in general elections held in 1987 which meant a third term in power for the Thatcher government in Great Britain and a second legislative period for the CDU/FDP coalition under Chancellor Kohl in West Germany. Secondly, there was an economic recovery after the crisis in the early 1980s (see Chapter 4, figure 4.3) which, measured in annual economic growth rates, was more pronounced in Great Britain, although the starting point for the upturn in the economy was comparatively lower. While the level of employment increased as a consequence of revived production, high unemployment figures remained a common phenomenon in both countries. However, a reduction in joblessness in Great Britain after 1986 was not matched in the West German labour market where the annual number of registered unemployed remained fairly stable until 1989. A third common factor was an increasing number of long-term unemployed in both countries whose share of all registered unemployment also increased.

This chapter will provide a description and explanation of important policy decisions with regard to unemployment compensation in the second half of the 1980s. I will show that, compared with the early 1980s, in both countries the share of unemployed claimants in receipt of unemployment insurance benefits declined further. However, while this trend continued in Great Britain until the end of the decade, in West Germany it reached a minimum in the mid 1980s after which insurance coverage increased again (see Chapter, figures 4.1 and 4.2). A

¹ In the concluding chapter I will reflect on some developments on unemployment compensation as a consequence of the unification of Germany and provide an outlook of potential changes in the future.

central aim of this chapter is to analyse factors which led to these outcomes and to demonstrate that different benefit arrangements and social security traditions facilitated or constrained policy decisions. Again, the chapter begins with an examination of developments in Great Britain, followed by an analysis of benefit changes in West Germany. As usual, a comparative assessment is provided in the third section.

Great Britain

The second half of the 1980s saw a large number of legislative changes for unemployed benefit claimants. For younger people in particular, but also for other groups, social security arrangements were significantly altered with regard to access and the right to insurance and assistance benefits. Unemployment hovered around three million between 1982 and 1986 (according to the 'new' definition of registered unemployment, see below) and began to decline thereafter while long-term unemployment continued to rise in absolute terms and as a share of overall unemployment. This and successive new regulations contributed to a continuing decline in the coverage of unemployment insurance (see Chapter 4, figure 4.1), which continued also after 1989.¹

In this section I will illustrate firstly the economic and political background against which changes in social security legislation occurred. Secondly the context of and the alterations made by the Social Security Act 1986 are discussed. Although the Act was not specifically directed at unemployed claimants, jobless people were nevertheless affected by it in various respects and by two late amendments in particular. The Act was implemented in April 1988 when the Social Security Act 1988 was being discussed and became law in October in the same year. Among other amendments it tightened minimum contribution conditions for the receipt of insurance benefits and removed benefit rights for 16 to 18-year olds. Subsequently, central aspects of the Social Security Act 1989 will be examined which altered arrangements for financing insurance benefits, strengthened conditions for the requalification for insurance benefits after a spell out of work and tightened the clause requiring unemployed benefit claimants to be 'available for work'. Finally, all three Acts will be interpreted and

¹ By November 1990 only 18.1% of all registered claimants were in receipt of unemployment benefit as the single form of income maintenance (another 3.9% received additional means-tested benefits, see DSS, 1991, p. 22)

assessed in the context of the government's policy objectives with regard to social security, public expenditure and the labour market during the period 1986 to 1989.

1. The political and economic context in the second half of the 1980s

Against the background of the economic recovery and in the aftermath of the Falklands War, the Conservative Party won the general election in 1983 with a comfortable margin. According to Gamble (1988, p. 113) the dominant feature from 1982/83 onwards was the economic upturn and the question how long it would last and how it could be sustained. A strict adherence to monetarism became less important and was 'dead' by early 1985 (Whiteley, 1990, p. 189). Instead of a control in money supply, the government adopted supply side economics and its main orientation in the mid 1980s became to control the exchange rate and to keep interest rates as low as possible without risking a return to high inflation (Gamble, 1990, p. 198). Sustaining the economic recovery in the private sector was also to be supported by holding public expenditure down in order to gain room for tax cuts. Other policies relating to this were the de-nationalisation of state-owned industries, the limitation of the power of trade unions and the attempt to deregulate employment protection legislation (see Deakin and Wilkinson, 1989) in order to create greater flexibility in the labour market (see Cmnd 9571, p. 3). There are some indications that these policies were effective to some extent, indicated by the growth in the number of part-time employees and self-employed often with earnings outside the national insurance net (see Hakim, 1987; 1988; 1989).

Improved economic growth rates and the privatisation of formerly nationalised industries increased state revenues and reduced the level of state borrowing. The PSBR declined continuously after 1983 and had gone into surplus by 1987 (see Whiteley, 1990, p. 185). Nevertheless, the control of public expenditure remained a prime policy objective for economic as well as ideological reasons (keeping inflation low as well as increasing the scope of private enterprise). Yet with an eye to a forthcoming general election, increased public spending for 1986/87 in excess of planned state expenditure was decided on in November 1986. This accelerated consumption and economic growth further so that by mid 1987 investment reached levels 'not seen since the late 1970s' (Whiteley, 1990, p. 190), which, in addition to the onset of the decline in unemployment after 1986, might have contributed significantly to the third election victory for the Conservative Party in 1987.

Average earnings improved in real terms during the 1980s but income differentials also widened significantly (see Wilkinson, 1988). Higher income groups gained disproportionately while the number of low wage earners grew as well as the number of people living at or below the supplementary benefit line (see *The Guardian*, 12 October 1990).¹ Also, the economic recovery in Great Britain after the early 1980s was very much based on 'jobless growth'. Unemployment remained at the very high level of around 3 million annually until 1986, when it started to decline gradually (*Employment Gazette*, June 1991). Long-term unemployment continued to increase and reached very high levels both in absolute terms (1.35 million in 1986) and as a proportion of total unemployment (42.6% in October 1987, see *Employment Gazette*, December 1988). Young people in particular were affected by unemployment (in 1986 the unemployment rate for 15 to 24 year olds was over 20%, see Chapter 4, figure 4.9) and increasingly also by long-term unemployment.

Although the government refused to 'raise the importance of unemployment in its hierarchy of values' (Ashton, 1989, p. 21), expenditure on schemes administered by the MSC was increased and the number of participants in special employment programmes and training courses continued to rise throughout the second half of the 1980s. Another attempt to reduce the visibility of the size of the problem of unemployment was made by a succession of administrative redefinitions in the method of counting the level of unemployment (see Morris with Llewellyn, 1991, p. 58/59). The most significant change was in October 1982. Prior to that, the official count of unemployment was based on the number of people registered at Job Centres and Careers Offices. When registration became voluntary in October 1982 this was replaced by a count of claimants of unemployment or supplementary benefit or of national insurance credits only (see Marsh, 1988). Of altogether 25 changes in calculating the level of unemployment between 1979 and 1989 (see *The Guardian*, 15 March 1989), only one produced an increase and all others a decrease in total unemployment. The Unemployment Unit (an independent research and campaigning organisation) attempts to estimate and demonstrate the cumulative effect of these changes by releasing figures based on the pre-1982 definition of registered unemployment. In June 1988, for example, the level of unemployment according

¹ According to a study by the Institute of Fiscal Studies, the living standard of the poorest households actually fell in real terms between 1981 and 1985 (see *The Guardian*, 24 April 1990) which, again, has to be related to the higher number of unemployed people.

to this count was 3.033 million while the Department of Employment calculated 2.375 million jobless people (see *Unemployment Unit Briefing*, July 1988).

2. The 'Fowler Reviews' and the Social Security Act 1986

While the Labour Party committed itself to the reintroduction of the earnings-related supplement for insurance benefits (Labour Party Manifesto, 1983, p. 316), the Conservative Party Manifesto for the 1983 election did not contain any plans with regard to social security apart from the renewed intention to control welfare state expenditure (Conservative Party, 1983, p. 296). The attempt at cutting especially social security spending became a major priority during the second term of the Thatcher administration for a number of reasons (see Ward, 1985, p. 7; Deakin, 1987, pp. 127; Adler, 1988, p. 177). Firstly, social security was the largest and fastest growing part of public expenditure (see Robinson, 1986) which made it a prime target for the perceived need for cut-backs with the aim of supporting private sector profitability by introducing further cuts in taxation. Secondly, the reduction in benefits and the introduction of private elements in welfare provision remained an ideological priority with regard to inducing changes in public attitudes and individual behaviour concerning work incentives and self-reliance. Finally, a simplification of social security was intended especially for the growth of the supplementary benefit scheme in terms of expenditure and the number of recipients which had added to the administrative workload and its complexities. A reform was envisaged which would make the system more transparent and would also save staff and resources. These factors led to a review of social security which was announced by Norman Fowler, the Secretary of State for Social Services, as the most 'substantial examination of the social security system since the Beveridge Report forty years ago' (HCD, 2 April 1985, col. 653).

Four separate review teams were set up to investigate the pension scheme, housing benefits, benefits for children and young people and the supplementary benefit system. Consultation from interested groups outside Parliament was encouraged, according to Adler (1988, p. 165), in order to enhance the legitimacy of legislative proposals which had not been announced in the election manifesto. A large number of organisations and individuals used this opportunity to make suggestions before and after the publication of the Green Paper in June 1985 (Cmnd 9517-19) which spelled out the government's proposals. The vast majority of comments however were hostile to the government's plans (see Adler, *ibid.*, p. 174). A central criticism concerned the 'nil-cost' condition

attached to the overall financial effect of the reforms. The implicit assumption for the reviews was that they would save costs which could be converted into future tax cuts. Apparently this policy objective was believed to create public discontent (which was one of the reasons for conducting detailed reviews, see Ward, 1985, p. 12) since a growing majority of the public resisted cuts in welfare spending even if, as a consequence, taxes were to be reduced (see Taylor-Gooby, 1987). A related criticism was that the attempt to restrict social security spending¹ took priority over considerations of adequacy of benefit rates (see Berthoud, 1987; Walker, 1987). In the Green Paper, social security expenditure was being portrayed as in conflict with economic growth and as 'responsible for a major share of the current tax burden on individuals and companies' (Cmnd 9517, p. 2). Creating conditions for 'substantial and real economic growth' (ibid, p. 20) was regarded as the sole adequate measure capable of preventing poverty, which social security could only alleviate. Since there was an assumed trade-off between social security expenditure and economic growth, the former 'must not be allowed to become a millstone' for the latter (ibid., p. 20).

The reallocation of resources to those 'in greatest need' was another focus of the reviews. The government conceded that unemployment had succeeded old age as the prime cause for low income (see Cmnd 9517, p. 13)² but the problem of work incentives continued to be emphasised repeatedly. Although it was implicitly admitted that the real extent of 'workshyness' might be small, it was nevertheless portrayed as serious, since people '*believe* themselves better off out of work than in work' (ibid., p. 13, my emphasis). It was also argued that the material impact of unemployment on claimants varied with age (Cmnd 9519, p. 12). A 'clear majority' of unemployed young people under the age of 25 were in receipt of the non-householder rate of supplementary benefit and were therefore, it was argued, not really independent since they had to rely on their families. This would be taken into account in the reform of the supplementary benefit system (which was renamed Income Support). Scale rates should no longer distinguish between long-term and short-term and householder and non-householder recipients, but should reflect age differences and recognise that different groups of claimants have different needs. Two standard benefit rates for those above and below the age of 25 were introduced which were supplemented

¹ In an interview with the New York Times, Margaret Thatcher expressed concerns about the 'growing cost of the welfare state' which she described as a 'time bomb' (see *The Times*, 25 January 1984).

² Taylor (*Unemployment Unit Review*, 17, 1985) estimated that a married worker with two children on an average in work income was £27 a week worse off during the first 6 months of unemployment in 1985 than he would have been had benefit levels remained at their pre-1980 level.

by so-called 'premiums' for certain groups such as pensioners, lone parents, families with children, etc. - but not the unemployed. Lower benefits for younger claimants were portrayed as creating a simpler scheme and were justified as transferring more responsibility to families. However, wider policy objectives concerning the depression of wage and benefit levels for younger people in order, it was argued, to reduce youth unemployment might have played a major part (see below).

The SSAC, which had previously demanded the introduction of the long-term supplementary benefit rate for the unemployed (see SSAC, 1982, p. 26; SSAC, 1985a, p. 18), criticised the decision to reduce benefit levels for younger people because it did not take account of 'social realities' (SSAC, 1985b, p. 21). While it was correct, the SSAC argued, that the majority of younger people (below the age of 25) received the non-householder rate, half of those between 20 and 24 years and 58% of those aged 24 (49% excluding single parents who were to receive the higher rate) were householders and would therefore lose out after the implementation of Income Support. Being principally against the introduction of age levels as indicator of need, the SSAC proposed that the higher rate should at least be paid to couples and this was later conceded by the government (see Cmnd 9691, p. 22). Labour pointed out that after the introduction of the new scheme in April 1988, approximately 280,000 single people under the age of 25 would receive reduced benefit payments (Margaret Beckett, Standing Committee B, 6 March 1986, col. 679). The opposition also argued that the government's policy objectives seemed to be in conflict. On the one hand, young people were supposed to be flexible and mobile in order to find work, while at the same time they were to be made more dependent on their families by reducing the means to look for employment (*ibid.*, col. 680).¹

Unemployed claimants were also affected by other changes introduced in the Social Security Act 1988 (for details see Berthoud, 1987, Bennett, 1987 and Morris with Llewellyn, 1991, ch. 3). The implementation of the Social Fund, which replaced rights to single payments for extra needs with cash-limited grants and loans on a discretionary basis, and also changes in housing benefit regulations can be assumed to have worsened the income situation for most of the unemployed claimants (see Morris with Llewellyn, 1991, ch. 5). However, whether and how much individual people and their families lost out or gained through the introduction of the reforms depends on a number of factors such as

¹ See below.

the family composition, additional income and the interaction of various benefits (see Dilnot and Webb, 1988). According to the government's estimates, about 4 million claimants of 'income related' benefits (which was the new terminology applied to means-tested transfers) would lose out, while 2 million people would improve their income situation as a result of the reforms (Cmnd 9691). However, young people under 25 and living away from home did 'particularly badly from the changes' (Dilnot and Webb, *ibid.*, p. 48).¹

3. Regulations affecting the unemployed in particular

Two late amendments, neither of which were announced in the Green or White Papers, were introduced by the government during the discussions in Committee in early 1986. The first was the abolition of the payment of reduced rates of short-term insurance benefits. Claimants (most of whom were married women in low pay and/or with interrupted work records) without a complete contribution record were, prior to 1987, able to receive either the 1/2 or 3/4 benefit rate dependent on the amount of contributions paid. The opposition pointed out that the removal of this option would affect 50,000 unemployed claimants (and 10,000 recipients of reduced sickness benefits) but Tony Newton, the Minister for Social Security, argued that administrative costs in connection with the payment of these benefits were too high (see HCD, 15 January 1986, col. 606) and that those in need were in most cases receiving supplementary benefit as well. While accepting that the change would represent a shift from an insurance to an 'income-related' benefit, the effect for most claimants 'in financial terms [would] be substantially or totally mitigated' (Standing Committee B, 17 April 1986, col. 1499).

While in Committee the debate on this clause (which saved £20 million, HCD, 15 January, col. 606) took just half an hour, the deliberations on the second amendment stretched over four hours. The government introduced a proposal which increased the disqualification period for 'voluntary unemployment' through leaving a job 'without good cause', industrial misconduct or the failure to accept a job or training offer, from up to 6 weeks (which had been unaltered since 1911) to a maximum period of 13 weeks. This change involved financial savings of up to £30 million in a full year (HCD, 1 May 1986, col. 471). It was argued that the present arrangements were not 'sufficiently effective in

¹ The financial effect of changes in relation to Income Support for 18 to 24 year olds in comparison to former supplementary benefit rates and with regard with the knock-on effects due to changed housing benefit regulations are demonstrated in SSAC, 1988, pp. 8.

discouraging people for giving up work voluntarily' (Tony Newton, Standing Committee B, 30 April 1986, col. 1871)¹ since the total number of benefit disqualifications for leaving employment voluntarily, in absolute terms as well as as a proportion of annual benefit claims, had constantly risen since 1981. Also, the current imposition of a disqualification for insurance benefits meant 'merely' a reduction in the supplementary benefit rate of 40% for claimants in need which was no 'real penalty' since the disqualified person would still receive a full year of unemployment benefit after the disqualification period had elapsed. The new clause changed this by providing the government with the power 'to make regulations to end that anomaly as soon as practicable' (Standing Committee B, *ibid.*, col. 1834) so that the overall benefit entitlement was not only deferred but actually reduced.²

Considering the repeated emphasis on improving work incentives and on providing cash benefits more according to need, it seems surprising that, apart from these two late amendments, the unemployment insurance scheme survived the social security review in the mid 1980s without any significant alteration (or even abolition). Prior to the publication of the Green Paper, leaked proposals and 'rumours' (Wikeley, 1989, p. 292) indicated that unemployment benefit would be increased, but paid out for a maximum of half a year only instead of twelve months, but these ideas were 'dropped at the last minute' (Taylor, in *Unemployment Unit Review*, 17, 1985, p. 2).

The government argued that there was 'a clear continuing role for unemployment benefit as a contributory, national benefit' (Cmnd 9517, p. 37). A wholly income-related, i.e. means-tested, system would be compatible with the idea of giving 'help to those in need' but it would undermine the 'importance of individual provision'.³ Public opinion which arguably favoured the retention of insurance benefits, was portrayed as a major reason against the abolition of the scheme and, presumably, also against a reduction in the duration of benefit entitlements which had been unchanged since the 1960s. In the public's view, it was argued, benefits related to contributions were regarded as different from and better than 'free allowances from the State' (*ibid.*, p. 19). On the other hand, the extension of unemployment benefits would 'require substantial extra resources' which were 'neither justified nor affordable without adding to the already heavy

¹ See also Cm 56-II, p. 246.

² By the time of writing (April 1992), the government had not yet made use of this power.

³ As shown in Chapter 3, and also at later stages, the emphasis on private provision topping up welfare benefits has been a characteristic notion in the social security tradition in Great Britain. I will return to this issue in the comparative assessment of this chapter.

burden on contributors and taxpayers' (ibid., p. 37). However, the contributory system, apart from being a 'valuable means for determining entitlement' (Cmnd. 9517, p. 19), might have been no less regarded as an appropriate tool for extracting resources for the payment of benefits (especially with regard to the reduction, and later abolition, of tax subsidies for financing insurance transfers, see below). Furthermore, the possible objective of abolishing unemployment insurance for ideological or financial reasons might have been perceived with less urgency during the course of the 1980s since the proportion of claimants who were actually entitled to unemployment benefits declined continually as a result of high and long-term unemployment in addition to social security changes. In this respect, the shrinking relevance of unemployment insurance as a form of income maintenance for jobless people might have influenced the government to restrain from the demolition of the scheme. Instead, the declining importance of unemployment coverage was further enforced by legislative changes in 1988.

4. The Social Security Act 1988

By 1987, the idea of paying earnings-related benefits on top of insurance transfers seems to have been abandoned also by the Labour Party who, in its election manifesto, simply proposed the extension of the long-term supplementary benefit rate to unemployed claimants (Labour Party, 1987, p. 313). Devoting more attention to social security than in its previous manifesto, the Conservative Party intended to concentrate resources on retirement pensioners, the disabled and low income families. The concentration on these 'deserving' groups reveals that, despite the steep rise in long-term unemployment in the second half of the 1980s (see Chapter 4, figure 4.7) jobless claimants continued to be perceived as 'less deserving' social security claimants (see also Chapter 2). Accordingly, rather than improved financial assistance, improved work incentives, intended to 'assist' the work motivation of the unemployed, were believed to be the appropriate policy choice. Indeed, a major objective of the reform of income-related (i.e. means-tested) benefits was aimed at assisting people in and out of work by fostering work incentives (Conservative Party, 1987, p. 303). The implication of this announcement became clearer with the publication of a Social Security Bill in 1987 (Social Security Act 1988) which changed benefit arrangements for unemployed people in general by tightening minimum contribution conditions for the receipt of

insurance benefits, while older and younger claimants (see below) were affected by particular alterations.

Before the Social Security Act 1988 was implemented, entitlement to unemployment benefit rested on two conditions. Firstly, contributions of at least 25 times the lower earnings limit had to be paid in any tax year prior to becoming unemployed (in some cases contributions from two years could be joint). Secondly, contributions on earnings of at least 50 times the lower earnings limit had to be paid or credited in the year preceeding the benefit claim. These conditions were relatively favourable for claimants and the proportion of disqualifications for unemployment benefits due to insufficient contribution records rose comparatively little for men between the mid 1970s and the mid 1980s despite a steep rise in unemployment (see Micklewright, 1990a, p. 30). In October 1988 both conditions were tightened. Since then, contributions of at least 25 times the lower earnings level have had to be paid in at least one of the last two tax years preceeding the year in which the benefit claim is made and, secondly, contributions of at least 50 times the lower earnings limit must have been paid or credited in each of the two tax years preceeding the claim for unemployment benefit (see Wikeley, 1989, p. 293). A third alteration abolished the granting of insurance credits for relatively new contributors. The reason for this was to prevent 'a flying start' for young people who had not been in employment previously (John Moore, Secretary of State for Social Services, HCD, 2 March 1987, col. 659). This change ruled out any receipt of unemployment benefit for school leavers for at least two years and raised the age for starting to build up credits for unemployment insurance for those in further education or on YTS to 18 years of age, so that benefit entitlement became effectively postponed until the age of 20.

Thus, since October 1988 practically two complete years of employment are required before entitlement to unemployment benefit is granted. This puts all those claimants in a worse position who have given up work temporarily (for caring work or bringing up children, i.e. mostly women) as well as people in low paid and part-time jobs.¹ The government estimated that, because of the change, about 350,000 people would fail to qualify for unemployment benefit, 300,000 of whom would receive Income Support (Standing Committee E, 3 December 1987, col. 399). Michael Portillo argued that the conditions for the receipt of unemployment benefit had become too easy to satisfy, which prompted

¹ For a discussion of the implication of these changes on individual jobless people see *Low Pay Review*, 32, 1988, pp. 14.

the government to introduce a stronger connection between benefit entitlement and a recent work record (Standing Committee E, 3 December 1987, col. 409). Indicative of the 'ambiguity' (Bolderson, 1982) concerning the contractual basis of insurance benefits (see Chapter 5) the government denied accusations made by the opposition that they were undermining the contributory principle. Instead, it was argued that a stronger link between benefit entitlement and a recent contribution record would strengthen this principle.

With regard to the sound financial situation of the National Insurance Fund at the time, the desire to cut public expenditure for cost-saving motives seems less relevant as a reason for tightening contribution conditions. More importantly, the change represented another shift away from insurance coverage towards a primarily means-tested provision of benefits for unemployed people, which is compatible with the frequently stated objective of allocating existing resources more according to need. However, savings were made (the net effect of the change was £10 million in 1988/89 and £70 million a year later) and, as outlined earlier, controlling social security expenditure remained an ideological priority for the government.

Financial considerations seem to have been important in the decision to reduce the age (from 60 to 55) at which the lowering of benefits for unemployed occupational pensioners became operational. About 45,000 occupational pensioners were affected and this change reduced public expenditure by £65 million (Peter Lloyd, Parliamentary Under-Secretary of State for Social Security, Standing Committee F, 24 January 1989, col. 115). However, considering the relatively healthy state of the economy and the surplus in public budgets at the time, saving public expenditure (for economic reasons) seems to have been less relevant in making this decision. The government justified the regulation as being consistent with the objective of concentrating available resources 'on those who need them most' (Nicholas Scott, Minister for Social Security, Standing Committee E, 8 December 1987, col. 455). It was argued that in private companies, a growing number of people retire at about 55 and that it was unreasonable to pay full unemployment benefits to people who have effectively retired since 'we believe that not many of those people are genuinely available for or seeking work' (Michael Portillo, Parliamentary Under-Secretary of Health and Social Security, *ibid.*, col. 476).

Another legislative change introduced in 1988 was also related to assumed attitudes of unemployed people. Only two years after the increase in the benefit disqualification period to 13 weeks (see above), the maximum penalty for 'voluntary unemployment' was raised to 26 weeks. The previous increase had been ineffective, it was argued, since the absolute number of imposed disqualification periods rose, subsequent to the change in 1986, while the total of benefit claims dropped. Thus more effective measures were needed to discourage voluntary unemployment. People dissatisfied with a job, Nicholas Scott, Minister for Social Security, maintained, 'should not give it up lightly and expect to receive benefit', instead, 'he or she should do everything reasonable to avoid becoming a charge on public funds ...' (HCD, 1 March 1988, col. 836).

Labour accused the government of encouraging a 'culture in which the unemployed are blamed for being unemployed of their own choice' (HCD, *ibid.*, col. 843) and argued that a six-week disqualification period (which had existed for 75 years) was enough to stop people giving up jobs voluntarily. Also, since few people actually knew about the rule and would have left their job in any event, increasing the disqualification period seemed unlikely to be an effective way of reducing the number of people leaving work voluntarily (Wikeley, 1989, p. 302). However, a consequence was another reduction in public expenditure, since many unemployed claimants in need had to rely on 60% of their Income Support rate for up to half a year, which for individual claimants, and in particular for single people under 25 years (see above), represented a significant decrease of living standard.

Similarly to the reduction of benefit rates for younger claimants, the increase in the penalty for 'voluntarily unemployed' can be regarded as an expression of a policy which portrays jobless claimants as part of the cause (i.e. the 'villains') rather than as the 'victims' of the problem of high unemployment (Brown, 1990). The implicit argument was that becoming and staying unemployed was to a significant extent due to the attitudes of the unemployed themselves and less to the failure of public employment and economic policy. This underlying assumption seems to have become more prevalent after the mid 1980s, which can be illustrated by a brief discussion of the changed position of young unemployed claimants in the second half of the 1980s.

5. Being young and unemployed

For younger single claimants below the age of 25 (who remained disproportionately affected by unemployment during the late 1980s, see

Employment Gazette, June 1991), changes in social security regulations had important implications. As outlined earlier, the Social Security Act 1986 lowered means-tested benefit scale rates for all single claimants under the age of 25. For this group, the shift from insurance benefits to Income Support (as a result of tightening contribution conditions in the Social Security Act 1988, see above) implied a significant fall in social security benefits. This might have been regarded by the government as a welcome side effect of the Social Security Acts 1986 and 1988 since the lowering of earnings for younger people in and out of work was a central policy objective (see below).

In perhaps the most drastic change concerning young people under the age of 18 claiming means-tested benefits, the Social Security Act 1988 raised the qualifying age for the receipt of Income Support from 16 to 18. This can be regarded as the culmination of a succession of social security changes directed at this age group throughout the 1980s.¹ Plans for abolishing the independent right to benefits for young people go as far back as 1981 when a White Paper proposed the introduction of YTS as a compulsory form of training for unemployed school leavers under 17 years of age (see Cmnd 8455). Access to social security should be replaced, it was argued, with a guaranteed place on a newly-created training scheme. Much opposition (predominantly from the MSC) led the government to waive this proposal and to concede that there would be no withdrawal of supplementary benefit after the scheme became operational in September 1983 (see HCD, 21 July 1982, col. 23). Other social security changes reduced benefit levels for 16 to 18 year olds but also, as outlined earlier, for claimants under the age of 25. In the mid 1980s, particular emphasis was placed on restricting the payment of benefits to young people who stayed in board and lodgings, who, allegedly, abused the social security system (see Stewart et al., 1986) and students were also affected by the removal of benefit entitlements during the 'short vacations'.²

In 1987 the Conservative Party's election manifesto announced steps which would ensure that young people under 18 who 'deliberately choose to remain unemployed' would no longer be eligible for benefits (Conservative Party, 1987, p. 296). A place on a YTS scheme for each unemployed school leaver was to be

¹ See HCD, 20 December 1985, cc. 422 to 426 for a list of social security changes affecting young people between 1980 and 1984 and HCD, 27 July 1989, cc. 879 to 884 for legal developments between 1985 and 1989.

² For more details and the background of the changes, see Allbeson (1985); Roll (1988) and Stewart and Stewart (1988), as well as Harris (1988) for an evaluation of the likely impacts and potential consequences for young people and their families.

guaranteed, which was apparently the prime condition for the acceptance of the removal of benefit rights for 16 and 17 year olds in the Social Security Act 1988 since a similar proposal, made in 1986, was rejected by Conservative MPs who argued that such a guarantee could not be promised (see Standing Committee B, 4 March 1986, cc. 548). But in 1988 the amendment was implemented and the right to Income Support for all but a minority of under 18 year olds was removed. Exemptions were made only for people in particular circumstances (e.g. married claimants, lone parents, etc. - see Roll, 1988, p. 13, for further details of the amendment). The stated objective of this change was to rule out unemployment for school leavers by definition. In fact, about 70,000 16 and 17 year olds who received Income Support at the time disappeared from the unemployment count when the Act came into operation in April 1988 (see Brown, 1990, p. 169).

The removal of independent benefit rights and the lowering of benefit levels for young people can be related to the government's wider objectives since the early 1980s with regard to family policy (transferring responsibility for younger people from the state to families; see *The Guardian*, 17 February 1983 and Harris, 1988) as well as employment policies (reducing incomes of young people in order to create more occupational and regional mobility as a way, it was hoped, to reduce youth unemployment; see Allbeson, 1985).¹ In accordance with a White Paper (Cmnd 9571), which emphasised the need for labour market deregulation in order to 'lift the burden' from employers, the subsequent implementation of the Wages Act 1986 removed all workers under the age of 21 from employment protection through wages councils (see *Low Pay Review*, 27, 1986; Brown, 1988). The explicit aim of this exclusion was a reduction of wage levels for young people which, it was argued, would create more jobs (see Tom King, Secretary of State for Employment, HCD, 17 June 1985, col. 329). Present wage differentials between adults and young workers were too narrow and would not reflect differences in labour productivity, which contributed to the high rates of youth unemployment. The underlying assumption was that existing earnings were too high and thus acted as disincentives for employers to offer jobs to youngsters (see Kenneth Clarke, Minister for Employment, HCD, 11 February 1986, col. 800) while exaggerated benefit rates induced young people to remain unemployed. By explaining unemployment with reference to individual

¹ However, it can of course be argued that a reduction in benefit levels adversely affects job search activities and labour mobility.

behaviour, the government's remedy was to reduce both wage and benefit levels for young workers.

6. Blaming the victim - the Social Security Act 1989

Almost as an annual event, another Social Security Bill was debated in early 1989 and was enacted as Social Security Act 1989 in October. It changed benefit provisions for unemployed claimants to a significant extent by, once again, tightening eligibility conditions concerning access to insurance benefits but also by putting more pressure on unemployed claimants to demonstrate that they were available for employment. Furthermore, the financing of insurance benefits became more regressive after the abolition of the subsidy from general taxation to the National Insurance Fund.

Since the introduction of the national insurance system in Great Britain, contributions have been paid by employers and employees which were supplemented by a subvention from the Treasury. This 'tripartite arrangement' (Wikeley, 1989, p. 294) was justified in the past with reference to the support of lower paid workers for whom flat-rate contributions had to be kept low to be affordable (see Chapter 3). Mainly due to the introduction of fully earnings-related contributions in the mid 1970s and the linking of pension upratings to only the level of inflation (not wages) in the early 1980s, revenues increased which allowed the government to reduce the Treasury supplement from 18% in 1979 to 5% in 1988. By then, expenditure on insurance benefits could be fully covered by contributions which, the government argued, made the tripartite principle 'effectively a dead letter' (John Moore, HCD, 10 June 1989, col. 719). A surplus in the National Insurance Fund was taken as an indication that a position had been reached where the abolition of the subsidy was a 'sensible, logical outcome' (Nicholas Scott, Standing Committee F, 17 January 1989, col. 28).

Although criticised by the opposition, the decision to abolish the supplement attracted only little attention inside and outside Parliament. In Standing Committee the clause was debated for less than one hour. The reason for this might perhaps be related to the fact that, in contrast to other countries (and in the context of this study, West Germany in particular), the National Insurance Fund in Great Britain has never been more than a 'symbolic entity' (Hill, 1990, p. 59), since planning public expenditure 'did not involve treating this fund as distinctly separate and protected' (*ibid.*). It should be noted however that the abolition of the subsidy from general taxation represented a move towards making the

financing of social security more regressive. Also, it could add more weight to potential future amendments with the aim of making access to insurance benefits even more dependent on individual contribution records (only better contributors 'deserve' rights to insurance cover) while excluding workers with less stable employment biographies.

One step in this direction was taken by the Social Security Act 1989. Before October 1989, 13 weeks of employment were required between two spells of unemployment for the requalification for unemployment benefit after eligibility had been exhausted. Clause 8 of the Social Security Bill stipulated that these 13 weeks should be within the 26 weeks preceeding the new claim, thus preventing a spread over a longer period. The intention for this 'useful small measure' was to 'make a sustained return to employment necessary' for the entitlement to insurance benefits (Perter Lloyd, Standing Committee F, 7 February 1989, col. 322). Similar to stricter minimum contribution conditions introduced a year earlier, the effect of this change would mean a further, although less pronounced, reduction of insurance coverage.

The most debated and criticised amendment in the Social Security Act 1989 however was the tightening of the rules of eligibility for the receipt of benefits with regard to the 'availability for work' condition. Clauses 7 and 10 of the Social Security Bill introduced new rules which stipulated that claimants had not only to be available for employment but must prove they were 'actively seeking work'. Previously, 'availability' had to be demonstrated by simply registering for employment at employment offices or Jobcentres and by 'signing on' at regular intervals thereafter. Following the recommendations of the Rayner Report in the early 1980s (see Chapter 7), it was intended that all new claimants would be interviewed after 16 weeks of unemployment by Unemployment Review Officers. However, due to cut-backs, this turned out to be administratively impracticable and claimants were simply asked at the beginning of their claim whether they were prepared to accept any full-time job that they could do (see *Employment Gazette*, March 1987, p. 145).

But the government seem to have been dissatisfied with that procedure. After experiments with a combination of questionnaires and interviews in some local offices (see *ibid.*, p. 146) a more detailed and longer questionnaire was introduced nationally in 1986 and more 'claimant advisers' (who replaced Unemployment Review Officers) were employed to inform claimants about the availability condition (see Brown, 1990, p. 196). Also, since 1986 long-term unemployed have been called for an interview every six months (instead of a

year) and the failure to attend could lead to the suspension of benefits. Finally, since early 1989, all new claimants have been seen by senior claimant advisers to ensure that benefit recipients were available for work and were informed 'how to re-enter the labour market' (Wikeley, 1989, p. 298). But the government still appear to have been dissatisfied despite a continuous increase in benefit disqualifications on the grounds of non-availability for work between 1983 and 1987 (see HCD, 25 January 1989, col. 613).

The state, it was argued, should attempt to create an 'environment of enterprise and job creation' and could therefore 'expect individuals to take the trouble actively to seek work' (Nicholas Scott, Standing Committee F, 31 January 1989, col. 169). The problem, it was maintained, was that people think 'one needs simply to be available for work, not actively seeking it' (ibid.). The underlying assumption that unemployment was, at least in part, attributable to the behaviour of jobless people themselves (see above), had already been spelled out in two White Papers published in 1988, which influenced policy formulation for the Social Security Act 1989.

There, it was argued that, among other things (such as an overregulated labour market, high wage levels and a general lack of skilled labour), unemployment was not declining faster because a 'significant minority' of unemployed people were 'not actively looking for work' (Cm 540, p. 55). Many jobless people were fraudulently claiming benefits while working, others had simply lost touch with the labour market and had become accustomed to a life on benefit and would 'fear responsibilities' which a return to work would bring (Cm 316, p. 28). The government referred to a labour market survey from early 1987 and claimed that nationwide about 700,000 job vacancies existed (Cm 316, p. 9) while over 200,000 unemployed people had not been looking for work in the past four weeks (ibid., p. 33). Thus, the introduction of a Bill was recommended, with the aim of amending the law and requiring claimants to take 'more positive steps to find employment' (Cm 540, p. 58).

The clause which introduced the 'actively seeking work' test in the Social Security Act was fiercely attacked both inside and outside Parliament (see, for example, *Unemployment Bulletin*, 31, 1989; *The Guardian*, 4 September 1989). The main criticism was that it would resurrect the repressive 'genuinely seeking work' test which was operational in the 1920s (see Deacon, 1976, pp. 21) and that it would put the onus of proof of availability for work onto claimants. Also, the purpose of tightening the rule was questioned at a time when, even accepting the government's own estimates (which were far above the official number of

vacancies - in October 1988 there were 251,000 notified job vacancies, see *Employment Gazette*, December 1988), there were at least three unemployed claimants for each vacancy (see HCD, 10 January, col. 728). Although the Social Security Act 1989 did not define what 'actively seeking work' implied, Ministers referred to the frequency of job applications and contact with employers and reading newspapers and journals (Standing Committee F, 31 January 1989, col. 185). The administrative practicalities of monitoring these activities were questioned by the critics who also pointed out that the most successful access to employment was through informal contacts (see *The Guardian*, 4 October 1989).

More specific but also related to the question of 'availability for work', another clause in the Social Security Bill restricted the rights of unemployed claimants further by narrowing the definition of 'good cause' on which claimants were able to refuse offered employment or training. Clause 9 ruled out the option of turning work down on the grounds that the wage was below the recognised rate for the job. Only for a 'permitted period', the government argued, should a claimant be able to concentrate on looking for work which 'offers a rate of pay similar to what he has been receiving' (Nicholas Scott, Standing Committee F, 7 February 1989, col. 394). Dependent on individual circumstances but after a period not longer than 13 weeks, the rate of pay was excluded 'when considering whether employment is suitable' (*ibid.*) while other conditions (such as health, 'domestic arrangements' or physical capabilities) would remain to be taken into account. Claimants, it was maintained, should not 'continue indefinitely pricing themselves out of any job they might realistically be expected to get' (John Moore, HCD, 10 January 1989, col. 716). Employers 'seek to recruit staff at rates of pay that they can afford' (Nicholas Scott, Standing Committee F, 9 February 1989, col. 395) and retaining the 'outmoded concept of a rate for the job' would not take account of an individual's 'ability to command a particular wage' (*ibid.*) - the definition of which was left open by the government.

To sum up this section, both clauses concerning the 'availability' as well as 'suitability for work' conditions in the Social Security Bill 1989 were directed at improving an assumed decline of the work ethic amongst unemployed claimants. Both were stated to be aimed at fostering 'self-reliance and independence on the part of the people in this country' (Nicholas Scott, HCD, 10 January 1989, col. 787) by 'removing perverse incentives (...) to remain in the shrinking pool of the unemployed' (John Moore, *ibid.*, col. 714). Thus, blaming the unemployed for

remaining unemployed was a clear underlying notion in both the White Papers and the Social Security Bill. However, wider policy objectives with regard to the ideological commitment of reducing public expenditure and, perhaps more importantly, of reducing wage levels and deregulating the labour market (see Cmnd 9517, p. 2) seem central too. From this perspective, the Social Security Act 1989 can be regarded even more clearly as a tool for economic policy-making than previous benefit changes for unemployed people in the second half of the 1980s.

7. Conclusion

With the benefit of hindsight, the changed social security provision for the unemployed in the second half of the 1980s appears to fit well with the wider policy objectives of the Conservative Party since 1979. The level of unemployment benefit in relation to average earnings had dropped continuously in the 1980s (see Atkinson and Micklewright, 1988, p. 8) which seems consistent with the propagated need of improving work incentives. A succession of legislative changes contributed to the ongoing decline in the importance of contributory benefits paid as of right, and to the shift towards means-tested benefits as the prime income provision for unemployed people. This can be related to the desire to allocate available resources to those in 'greatest need'. Finally, the overall loss of benefits to the unemployed between 1979 and 1988, which has been calculated to have been about £500 million (Atkinson and Micklewright, *ibid.*, p. 32), can be regarded as a successful attempt to curb expenditure on social security. This was portrayed by the government as necessary for encouraging economic growth and individual freedom.

Full employment as a political priority remained off the government's agenda although various changes in the definition for calculating total unemployment were made and the number of participants in training and special employment programmes was increased which reduced the visibility of the problem. When unemployment declined after 1986, familiar arguments in relation to the behaviour of the unemployed themselves which, arguably, prevented a quicker decline in unemployment figures, became more dominant again and apparently influenced policy formulation. The introduction of the 'actively seeking work test' was justified with arguments relating to individual responsibility. Among other things such as an overregulated labour-market and too high wage levels, the lack of the work ethic on the part of unemployed claimants was repeatedly stressed by the government as a significant 'barrier to employment'. From this

perspective, the removal of the level of remuneration as a 'good cause' for refusing offered employment can be regarded as another means with which unemployed claimants were pushed to accept lower paid work.

The emphasis on work incentives and individual behaviour of unemployed people was particularly apparent with regard to younger claimants, but benefit changes can be related to other policy objectives also. Perhaps most important was the desire to reduce wage rates, which, for reasons of moral hazard, required a simultaneous reduction in benefit levels. The exclusion of workers below the age of 21 from the protection of Wages Councils was explicitly aimed at lowering wage levels, and the reduction of benefit rates for people below the age of 25 seems consistent with the objective of improving work incentives but also with the ideological aim of transferring more responsibility from the state to the family. Finally, despite a surplus in public funds, the ideological commitment to reduce public expenditure seems to have been influential too.

Overall then, it seems that social security changes concerning unemployed claimants in the second half of the 1980s reflect different but compatible policy objectives of the Conservative Party. Despite the decline in total unemployment after 1986 (which might have added weight to the strategy of 'blaming the victim'), the relative ease with which successive benefit alterations were implemented seems surprising. With regard to young people, this might reflect the lack of pressure groups (apart from Youthaid and the National Union of Students) compared with, for instance, the number of groups which represent the interests of children. Considering the equally adverse situation for unemployed people in general, being young and unemployed seems to put individuals in a very weak position for opposing repressive political decisions. However, as discussed earlier, the abolition of benefit rights for 16 and 17-year-olds remained unsuccessful against criticisms (also within the Conservative Party) raised in the early and mid 1980s, and was only accepted in return for a promise from the government that a guarantee of a YTS place would be made to all school leavers. Also, the opposition of the SSAC and other organisations

to the reduction of benefit rates for young people under the age of 25 can be seen as (at least partly) effective, since couples were later exempt from the change.

Perhaps most noticeable was the lack of resistance against the succession of legislative changes which tightened contribution conditions for the qualification and requalification for eligibility to unemployment benefits, all of which reduced the coverage of unemployment insurance. Again, this might reflect the lack of

representation on the part of the unemployed inside but also outside of Whitehall, but other factors in relation to the institutional system of income support for the unemployed in Great Britain also seem relevant here (I will return to this point in the comparative discussion). On the other hand, it can be asked why the government retained the unemployment insurance system at all. The provision of insurance benefits seems to be in contrast with ideological objectives of improving work incentives, of allocating resources according to need, and of curbing public expenditure (since insurance benefits also go to claimants with savings or a partner with an income). Although as a way of reducing state subsidies and intervention, contributory insurance benefits have historically been an important liberal principle, it appears in other respects to go against the promotion of self-reliance and independence (since contributory benefits involve an element of collective provision and risk pooling). As outlined above, one reason for the avoidance of a total abolition of insurance provision for the unemployed might have been the revenue-raising function of the national insurance system, which became more important throughout the 1980s, replacing lost revenues due to cuts in income tax. Also, the government might have been reluctant to abolish a type of benefit which, it believed, was publicly perceived (however spuriously) as a 'reward' for the payment of contributions.

However, a drastic cut in benefit duration was planned prior to the publication of the Social Security Green Paper in 1985, but was dropped later. This might have been influenced by assumed public hostility had such an amendment been introduced. Opinion polls showed that rhetorical attacks against welfare state spending had not been successful in changing public attitudes. If anything, support for a collective provision of benefits and for improved social spending grew during the 1980s (although to a lesser extent with regard to benefits for the unemployed). Thus, increasing the importance of means-tested assistance benefits (symbolically appreciated by the application of the new terminology of 'income-related' benefits) whilst retaining but reducing the scope of the unemployment insurance system as a form of income support for unemployed claimants, might not only have been a politically feasible but also a desirable strategy.

West Germany

In the mid 1980s the unemployment compensation arrangements in West Germany became the focus of political and academic debate and a number of important changes were implemented during the second half of the decade. The debate (and to some extent also the changes) were triggered off by the unprecedented decline in the share of unemployed claimants covered by *Arbeitslosengeld* (see Chapter 4, figure 4.2). This was partly the result of the particular construction of benefit arrangements in West Germany (see Chapter 4). Due to continuously high levels of unemployment, and increasing long-term unemployment a growing number of jobless claimants exhausted their entitlement to *Arbeitslosengeld*. However, changes introduced in the early 1980s also contributed to the decline, since for job starters and others in a peripheral position in the labour market it became harder to qualify for insurance benefits. Accordingly, the means-tested *Arbeitslosenhilfe* became more important as a safety net. Yet, a growing number of unemployed were not covered by any benefit administered by the *Bundesanstalt* and had to resort to the locally financed *Sozialhilfe* (see Appendix B, table 3).

This provides the background for the analysis of legislative changes in this chapter. I will demonstrate how the coalition government reacted to growing criticism in relation to the trend outlined above. Again, as in earlier chapters, the financial situation of the *Bundesanstalt*, this time mainly in surplus, was an important consideration for annual benefit changes. I will show that *Arbeitslosengeld* coverage increased again and that, due to the compartmentalised structure of unemployment compensation in West Germany, benefit improvements (helping only particular claimant groups) actually resulted in cost-savings for the Federal government. However, a return to deficits in the *Bundesanstalt* in 1988 led to a return to restrictive policies - again affecting only selective claimant groups.

1. Distributing a *Bundesanstalt* budget surplus at a time of mass unemployment (Part I)

Economic output improved in West Germany with a 3.3% rise in GNP during 1984, while inflation was kept low (see Chapter 4, figure 4.3 and 4.4). The average annual level of unemployment in 1984 was 2.2 million. This had been

anticipated at the beginning of the year by the Finance Minister who had also predicted that unemployment would remain high in the medium term but would start to decline in the long term if economic growth rates of 3 to 3.5% could be achieved (*Der Spiegel*, 6 February 1984). However, economic experts agreed that annual economic growth rates above 6% (which were regarded as unrealistic) would be required to reduce the level of unemployment more substantially or even to return to the unemployment levels prevailing before the mid 1970s. In the debate about the improvement of the employment situation, the unions started to demand the introduction of a general 35 hour working week, which would redistribute employment, while the government continued policies with the objective of removing certain categories of workers from the labour market by offering alternative options to employment.

In May a new early-retirement scheme was introduced. It granted subsidies to employers who paid at least 65% of the gross wage to workers over the age of 58 who accepted early retirement. The system applied to companies where both unions and employers agreed to its conditions and grants were made only if the retired worker was replaced by a new member to the workforce.¹ Another programme was the controversial 'Employment Promotion Act' (*Beschäftigungsförderungsgesetz*), implemented in 1985, with the intention of improving conditions for employers to hire workers on a temporary and also part-time basis by introducing certain deregulations of the existing labour law. While the government argued that the act would result in the creation of new jobs and reduce the volume of overtime work (see *Bulletin*, 24 August 1984) the DGB rejected it as an instrument which would convert permanent into temporary, and thus insecure, forms of employment (see, for example, Bosch and Seifert, 1984). The government also emphasised that expenditure and the number of people participating in training, retraining and job creation programmes had increased (see BT-Verh., 29 March 1984, p. 4335).²

An analysis of the social composition of unemployment in North-Rhine Westphalia (with a population of 17 million people the largest *Land* in West Germany with a strong industrial base) revealed that one in three people had been out of work for more than one year and that long-term unemployment was

¹ Between May 1984 and May 1986 40,000 applications for the grant were made by employers, of which just over 30,000 were accepted by the government. Up to the end of 1988 (when the scheme terminated) 160,000 workers took early retirement with the help of the scheme and 88,000 subsidies were granted (see Schäfer, 1988, pp. 369).

² For the annual number of people participating in labour market programmes between 1973 and 1990 see Kühl, 1990, p. 31. For an evaluation of the development of 'active' labour market schemes during the 1980s see Schäfer, 1988 and Webber, 1987.

particularly a problem for older workers. Almost half of those over the age of 45 were out of work for at least a year compared with 11% of those below the age of 20. Just below a third of all registered unemployed were without any benefit from the *Bundesanstalt* (see *Handelsblatt*, 17/18 February 1984). It reinforced demands by individual unions for an increase of the level and duration of *Arbeitslosengeld*. Inside the *Bundestag*, questions concerning the material situation of unemployed people were also raised more frequently.

The debate gained momentum in July 1984 when it became clear that the *Bundesanstalt* budget would show an annual surplus of 3 billion DM by the end of the year (see Appendix B, table 2) instead of a deficit of 1.7 billion DM, which had been expected at the beginning of 1984. An 'automatic consolidation' (Bosch, 1984) of the budget had occurred, partly due to an increase in the volume of employment (adding receipts) but more so because of cuts in the provision of unemployment benefits and an increased number of claimants who had exhausted their right to *Arbeitslosengeld* as a result of long term unemployment. By February 1984 only 45% of all registered unemployed received *Arbeitslosengeld* (see Chapter 4, figure 4.2) and this proportion had declined to 35% by June 1984, the lowest rate in West Germany's history.

While the prospect of large reserves in the *Bundesanstalt* budget at a time of high unemployment was widely criticised, opinions on how to distribute the surplus differed. Heinrich Franke, the president of the *Bundesanstalt*, agreed with the DGB and with social policy experts of the CDU, that unemployed claimants should receive *Arbeitslosengeld* for a longer period. He also demanded an increase in the level of disregarded income for married partners of *Arbeitslosenhilfe* recipients (see *Frankfurter Rundschau*, 12 July 1984). The FDP and the 'economic council' of the CDU favoured a reduction in contribution rates to the *Bundesanstalt* which would, it was argued, reduce wage-related production costs and thus encourage investments and employment growth (*Handelsblatt*, 15/16 July 1984). The Ministry of Labour and Social Affairs remained undecided until the exact extent of the expected surplus was established and employer organisations, while also cautious, argued that if benefit entitlements were extended, a more graduated system based on individual contribution periods would be an adequate solution (*Handelsblatt*, 17 July 1984). Local authorities argued in favour of an increase in benefit levels administered by the *Bundesanstalt* which would reduce *Sozialhilfe* payments accordingly. Günter Samtlebe, Dortmund's mayor and also president of the 'German Association of Cities' (*Deutscher Städtetag*) pointed out that the share

of *Sozialhilfe* recipients who were unemployed had risen to 25% and in some areas to up to 35% and 40%. He argued that the cost and problem of unemployment should not be paid for and administered by local authorities. Because high unemployment was a national problem he demanded an increase in *Arbeitslosengeld* and *Arbeitslosenhilfe* rates to at least the *Sozialhilfe* level, and an extension of entitlement to *Arbeitslosengeld* (*Handelsblatt*, 23 July 1984).

A Bill was enacted in January 1985, which altered the AFG in three major aspects. Firstly, entitlement for *Arbeitslosengeld* was increased, for workers of at least 50 years of age, to a maximum benefit duration of 18 (instead of 12) months. Yet this improvement was granted only to those with longer periods of insured employment. For each 6 months of contributions paid (after three initial contribution years) one additional month of *Arbeitslosengeld* entitlement was granted to those above the age limit. The maximum of 18 months was received by unemployed workers with a contribution record of 6 years (within the past 7 years). Secondly, the benefit disqualification period (for those who left their job 'voluntarily' or refused to accept 'suitable' employment offers) was raised from 8 to 12 weeks. Finally, contribution rates to the *Bundesanstalt* were reduced from 4.6% to 4.4% while the contribution rates to the pension fund were increased by the same rate.¹ The financial effect of these changes was limited with an additional burden for the *Bundesanstalt* of 1.06 billion DM in 1985 because of the *Arbeitslosengeld* improvement (expected to benefit 160,000 claimants). It should be noted that the Federal budget actually saved 590 million DM due to the effect of reduced expenditure on *Arbeitslosengeld*, which was funded (but not administered) by central government through general taxation (see Chapter 4).

During the first reading of the Bill, Adolf Müller (CDU) stressed that the 'lingering exclusion of unemployed claimants from receipt of *Arbeitslosengeld* had particularly affected older workers (Bt-Verh., 20 October 1984, p. 6970) who, as 'loyal and long term contributors to the unemployment insurance system' should not have to face the means-tested *Arbeitslosenhilfe* after only one year of unemployment. Similarly, Norbert Blüm emphasised the distinction between more and less 'deserving' claimants. 'A 50-year-old worker who had paid contributions for 30 years' should be entitled to longer benefit receipt than 'somebody who had only paid into the system for three years' (ibid., p. 6983). The CDU argued that a stronger differentiation of *Arbeitslosengeld* entitlement

¹ See the previous chapter for this 'shifting yard' policy according to political expediency between supposedly financially separate insurance funds.

would serve both the principle of 'social justice' and fulfil criteria of the 'insurance principle' (Adolf Müller, *ibid.*, p. 6970). Julius Cronenberg (FDP) maintained that a closer determination of benefit entitlement by individual contribution periods had been an old demand of the Liberal Party. Thus the FDP welcomed the change as a first step in the right direction (*ibid.*, p. 6978).

The increased disqualification period was claimed by the Minister of Labour and Social Affairs to have been introduced through 'solidarity' with the long term-unemployed. Workers should make sure that new employment was available before deciding to quit their jobs. At a time of over 2 million out of work, those with a job should 'take care of it and act responsibly' (*ibid.*, p. 6983). While the SPD and the Green Party welcomed the prolonged benefit entitlement for unemployed claimants, both argued that longer benefit receipt should be available for all long term unemployed. It was also pointed out that the number of annual disqualification periods had declined over the previous years which made a tightening of sanctions unreasonable (BT-Drs., 1984, p. 11).¹ But Norbert Blüm argued against a general extension of benefit entitlement which would mean a social policy with a 'watering can'. The over 50-year-olds would represent 30% of all unemployed who had been out of a job for more than a year and helping them would be a 'targeted social policy' (BT-Verh., 6 December 1984, p. 8111).

There were critical reactions also outside parliament. The DGB maintained that the changes introduced were not sufficient to improve the material situation of the unemployed. While it agreed with the principle of relating benefit entitlement to periods of employment (see Adamy, 1984, p. 308) it demanded a standard increase in the level of *Arbeitslosengeld* and *Arbeitslosenhilfe* and in the entitlement to *Arbeitslosengeld* to 18 months, a reduction of the minimum contribution period for *Arbeitslosengeld* to 6 months (see DGB, 1984). Local authorities and the *Bundesanstalt* also remained critical. Heinrich Franke proposed the introduction of *Arbeitslosengeld II* for 4 to 6 months for all claimants who had exhausted their right to *Arbeitslosengeld* (*Frankfurter Rundschau*, 25 October 1984). However, the new Act was introduced in January 1985 without any alterations having been made to the original Bill.

¹ The annual number of disqualification periods due to 'voluntarily leaving a job' declined from a peak of 303,000 in 1981 to 203,000 in 1984 (see *Bundesanstalt für Arbeit*, 1990, p. 741).

2. Distributing a *Bundesanstalt* budget surplus at a time of mass unemployment (Part II)

January 1985 marked a new post-war record of 2.6 million people officially registered out of work in West Germany. Yet in the summer of the same year it became apparent once again that the *Bundesanstalt* would have accumulated a surplus by December. The public debate about what to do with the surplus resembled the one in the previous year. The Ministry of Labour and Social Affairs planned to continue the policy of granting longer benefit entitlements based on age and contribution records. It intended to allow unemployed of at least 39 years of age to receive *Arbeitslosengeld* for up to 16 months, those of 49 years and older for up to 20 months and those of 54 years and older for up to 2 years depending on contribution records. An estimated 200,000 people would gain from this regulation. Additionally, unemployed people of at least 58 years of age were to be given the choice as to whether they would remain available for work without affecting benefit entitlements. Norbert Blüm argued that, since unemployed claimants over the age of 58 did not really have a chance to return to the active labour force, for reasons of 'self esteem' they should be given the opportunity of not registering for employment (*Die Zeit*, 5 July 1985). Furthermore, the level of disregarded income of married partners of *Arbeitslosenhilfe* recipients was to be doubled, and total disregarded income would rise further due to (also increased) allowances for children (see *Handelsblatt*, 28/29 June 1985).

The proposals were welcomed by the Finance Minister, not least because of (as in the year before) their positive effect on the Federal budget. Changes would require additional expenditure of 1.725 billion DM which was to be paid out of the *Bundesanstalt* budget, while expenditure on *Arbeitslosenhilfe*, paid out of the Federal budget, was expected to be reduced by 700 million DM. Also relevant seems to have been the effect of the intended change with regard to the unemployed over 58 years of age, which could result in a reduction of the number of registered unemployed of between 60,000 and 100,000 (see *Der Spiegel*, 1 July, 1985). The FDP had reservations about the plan to extend entitlement periods if, as a result, the existing volume of expenditure had to be increased. Instead, they believed that contribution rates should be reduced, primarily in order to lift the burden on wage-related costs for companies (see *Frankfurter Rundschau*, 11 July 1985 and *Handelsblatt*, 12/13 July 1985). Norbert Blüm, however, argued against a reduction of contribution rates, since

this would mean a 'redistribution from the unemployed to job occupants' (*Frankfurter Rundschau*, 8 July 1985). Both the DGB and employers organisations argued that a part of the *Bundesanstalt* surplus should be used for improving programmes especially for the young unemployed to gain better qualifications (*Frankfurter Rundschau*, 13 July and 9 August 1985).

Before a decision was made, tripartite talks between the government, unions and employers organisations were held at the beginning of September and subsequently the government decided to make use of the surplus for both providing longer entitlement for *Arbeitslosengeld* and to increase expenditure on vocational training and education programmes, especially for younger unemployed people. However, going against both the Minister of Labour and Social Affairs and the Minister of Finance (see *Der Spiegel*, 16 September 1985), the FDP's demand for a reduction of contribution rates was supported by Helmut Kohl, and rates were reduced from 4.1% to 4%.

The Bill, published in October 1985 (BT-Drs., 1985a), announced improvements in training allowances, job creation programmes and other labour market schemes amounting to additional expenditure of 745 million DM.¹ Additionally, 1.1 billion DM was spent on the extension of *Arbeitslosengeld* entitlements which was 0.5 billion less than was originally proposed by the Ministry of Labour and Social Affairs. Accordingly, instead of claimants older than 39 years profiting from the new regulations, the age level above which improvements were introduced was raised to 44. Depending on a sufficient contribution record, unemployed workers of 44 years and above were granted the receipt of *Arbeitslosengeld* for up to 16 months.²

The CDU, justifying the changes in unemployment compensation, argued that a more graduated system of benefit entitlements was introduced for three reasons. Firstly, older workers were, on average, unemployed for longer periods than younger claimants. Secondly, younger unemployed were easier to place in work and thirdly, older unemployed workers had normally paid contributions for longer periods. An unemployed person who had paid for an extended period should 'reasonably expect to be on better terms than a 19-year-old with a minimal contribution record' (*CDU-Dokumentation*, 31, 1985, p. 3). As they had the year before, the FDP again pointed out that it would have

¹ For details see *Sozialpolitische Informationen*, 4 October 1985 and 13 January 1986.

² Claimants older than 49 years could receive up to 20 months *Arbeitslosengeld*, and the maximum duration of 2 years *Arbeitslosengeld* was granted to unemployed workers older than 54 years. The contribution/benefit ratio remained 3:1 which meant that for a maximal duration of 2 years *Arbeitslosengeld*, 6 years of insured employment (within the previous 7 years) were required.

preferred to differentiate benefit entitlements even more according to individual contribution periods. It was hoped that a system could be created which would allow the *Bundesanstalt* to determine individual contribution records (see BT-Verh., 6 December 1985, p. 13879). The Liberals also would have welcomed a more substantial reduction of contribution rates in order to decrease wage-related costs and thus to improve conditions for investment and employment.

In committee the SPD and the Green Party argued against the government's proposal to exempt claimants above the age of 58 from registering for employment, claiming it to be a manipulation of unemployment benefit statistics (see BT-Drs., 1985b, p. 6). The opposition parties also criticised the reduction in contribution rates by 0.1% as an unnecessary concession to the FDP which apparently prevented more substantial improvements in benefit provisions. The DGB maintained that 60% of all long term unemployed were below the age of 45 and were thus not benefiting from the changes introduced in the 7th AFG Amendment Act 1986 (DGB, 1985, p. 6).

3. Planned benefit improvements before the 1987 election

The evaluation of the economic situation for 1986, and also medium term expectations, were positive at the beginning of 1986. But despite economic growth, a trade surplus and price stability, unemployment remained high, with 2.45 million people out of work in March (*Bulletin*, 25 April 1986). In May 1986 the first results of a study, jointly commissioned by municipalities and the *Bundesanstalt*, provided new evidence on the relation between unemployed claimants and *Sozialhilfe* (IAB, 1986). It was based on households receiving *Sozialhilfe* in September 1985 and showed that by then 13% of all registered unemployed (277,000 people) had been in receipt of *Sozialhilfe*. In some larger cities the figure was up to 45% (IAB, 1986, p. 4 and p. 5). A quarter of the unemployed in receipt of *Sozialhilfe* were younger than 25 (which was approximately the share of this age group in total unemployment, *ibid*, p. 13) and the proportion of long-term unemployment had risen from 17.9% in 1981 to 31% in 1985 (*ibid*., p. 15).

By mid 1986 it became clear once again that the *Bundesanstalt* could expect to have accumulated reserves, amounting to over 5 billion DM, by the end of the year. Norbert Blüm consulted the Minister of Finance who agreed to a further extension of *Arbeitslosengeld* entitlement, including the unemployed aged 39 and over, arguably not least because increased *Arbeitslosengeld* expenditure would reduce the overall payment of *Arbeitslosenhilfe* out of the Federal budget

(*Frankfurter Rundschau*, 16 June 1986). With regard to an anticipated level of unemployment of between 2.15 and 2.2 million for 1987 and the unexpectedly positive budget situation, the president of the *Bundesanstalt* welcomed the plan for a further extension of the duration of benefit entitlement (*Handelsblatt*, 4/5 July 1986). As in the years before, the FDP and the 'economists' within the CDU and CSU demanded also a reduction in contribution rates to the *Bundesanstalt* (*Handelsblatt*, 18 September 1986). CDU social policy experts favoured a speedy introduction of the new regulations but the Minister of Labour and Social Affairs argued that an implementation by January 1987 was not feasible before the general election, which was scheduled for the 25 January 1987.

Triggered by the continuous reduction of *Arbeitslosengeld* coverage and increased receipt of *Sozialhilfe* by unemployed claimants (in addition to the prospect of remaining high levels of unemployment) a debate intensified which questioned the existing social security system in West Germany. Various ideas were put forward from academic and political circles for a replacement of the current scheme. Suggestions ranged from 'basic income guarantee' proposals (see Die Grünen, 1986; also Opielka and Vobruba, 1986) to 'negative income tax' schemes suggested by neo-liberal proponents (see Engels et al., 1986). Groups and individuals close to the unions and the SPD suggested the retention of the earnings-related social insurance system, complemented by a new needs-oriented 'basic income security' (see WSI, 1987 and SPD, 1988).¹

In Parliament, the SPD accused the government of the intention of raising entitlements to *Arbeitslosengeld* only for financial reasons, since money was needed in the Federal budget for funding the pledged improvement of retirement pensions for certain groups.² Also, both opposition parties complained about the complacency of the government regarding the unemployment insurance scheme, which had proved to be inefficient in preventing growing poverty by transferring an increasing number of claimants to local *Sozialhilfe*. In substantial parliamentary answers to the Green Party (see BT-Drs., 24 September 1986) and to the SPD (see BT-Drs., 3 December 1986), the government denied the existence of a 'new poverty' as the result of an exclusion of unemployed people from entitlement to *Arbeitslosengeld*. It was claimed that in September 1985 only

¹ For a description of the West German 'basic income' debate see Kress, 1987 and for an assessment and criticism of some of the major proposals see Clasen, 1988.

² The government intended to recognise periods of child rearing (*baby years*) in calculating retirement pensions for mothers. This would, from 1987 onwards, increase pensions by approximately 25 DM per month for mothers born before 1921 and for younger pensioners from a later stage.

4.8% of all *Arbeitslosengeld* recipients and 24% of all *Arbeitslosenhilfe* recipients had also been in receipt of *Sozialhilfe*. Taking all leavers from the unemployment register as a basis (rather than a cross-section of the currently unemployed), the government argued that two thirds of all registered unemployed had been in receipt of *Arbeitslosengeld* at some time. Thus, there was no need to reform the existing unemployment insurance scheme. In the run-up to the general election, the government emphasised further that employment had grown by 500,000 jobs over the previous two years, that youth unemployment was falling, and that the number of participants in labour market programmes had increased substantially (see *Sozialpolitische Informationen*, 29 July and 5 September 1986).

4. Distributing a *Bundesanstalt* budget surplus at a time of mass unemployment (Part III)

The general election in January 1987 was won by the government (see Appendix A), and the coalition between the CDU/CSU and the FDP continued. Just a few days after the election, the Ministry of Labour and Social Affairs sent a draft proposal for an amendment of the AFG, based on plans made before the election (see above), to other Ministries, the *Bundesanstalt* and various groups for consultation (*Frankfurter Rundschau*, 29 January 1987). By January, the level of unemployment had increased to 2.5 million, and also the number of people working short-time had gone up (*Frankfurter Rundschau*, 5 February 1987). As a result, expenditure on *Arbeitslosengeld* and on other allowances increased, and the prospects for the annual *Bundesanstalt* budget worsened. However, the Ministry of Labour and Social Affairs did not intend to repeal the plans to improve benefit entitlements (*Frankfurter Rundschau*, 20 May 1987).

A few days before the government's Bill was introduced, the SPD issued a legislative proposal with the objective of improving the material situation of unemployed claimants (see BT-Drs., 1987a). It was dismissed by the government as too costly. Their own Bill intended a strengthening of the 'social security function' of the unemployment insurance system because, despite the changes introduced in 1985 and 1986, the proportion of *Arbeitslosengeld* recipients of all registered unemployed had only been stabilised, not improved (BT-Drs., 1987b). Three major changes were proposed which became law in July 1987. Firstly, the ratio between individual contribution and *Arbeitslosengeld* entitlement periods was improved from 3:1 to 2:1, i.e. allowing claimants with the minimum contribution record of one year 6 instead of 4

months entitlement to *Arbeitslosengeld*. Secondly, dependent on sufficient contribution records, entitlement to *Arbeitslosengeld* for unemployed claimants of at least 42 years of age (not 39 as had originally been planned by the Ministry of Labour) was extended to 18 months and a maximum duration of 32 months was granted to those who were at least 54 years old with very long and continuous work records.¹ Another alteration affected short-time working allowances for workers in the steel industry which, in order to 'prevent redundancies', were extended to a maximum duration from 24 to 36 months.

Overall additional expenditure for the *Bundesanstalt* was expected to amount to 1.4 billion DM in 1987 (2.8 billion DM in 1988) while the Federal budget would save 700 million DM (1.4 billion in 1988). The justification for the new arrangements was similar to those put forward in previous years. The financial scope of the *Bundesanstalt* was used, it was argued, to extend benefit entitlements for older workers who were both disproportionately affected by long-term unemployment and had also contributed to the *Bundesanstalt* for longer periods. Changes in the AFG were introduced in order to increase the number and the share of *Arbeitslosengeld* claimants because 'workers who had lost their jobs should primarily be covered by the unemployment insurance system' (BT-Drs. 1987b, p. 6). Norbert Blüm argued that with this recent alteration the government had kept a promise made before the election (BT-Verh., 8 May 1987, p. 649). A rational policy of consolidation had provided the financial scope for benefit improvements which would help those in greatest need (ibid.). In particular, older workers should profit since it was especially hard for them to find employment again. Younger and seasonally-employed workers would gain from the improved contribution/benefit ratio and from extended 'active' labour market schemes.² The FDP interpreted the extension of *Arbeitslosengeld* entitlements as a further step towards an eventual entire determination of individual durations of *Arbeitslosengeld* entitlements by individual contribution periods (BT-Verh., 8 May 1987, p. 656), and reiterated their view that individual 'contribution accounts' would 'hopefully soon' be available in order to introduce a 'real insurance system' (BT-Verh., 5 June 1987, p. 1074).

Perhaps indicative of the financial implications for benefit improvements was the rejection of a proposal by the *Bundesrat* (BT-Drs, 1987b, p. 9). Welcoming

¹ See Appendix B, table 1.

² In 1987 a record number of people (597,000) attended courses in vocational training and retraining while 115,000 people were engaged in job creation programmes (see Kühl, 1990, p. 31).

the improvements for *Arbeitslosengeld* recipients, the *Bundesrat* suggested additional improvements for recipients of *Arbeitslosenhilfe* - which would have had to be financed by general taxation rather than by the *Bundesanstalt*. With reference to the financial situation in the Federal budget this proposal was dismissed by the government. In Parliament, the Green Party opposed the Bill, while the SPD welcomed the extension of benefits. It claimed however that the sole objective behind the extension of *Arbeitslosengeld* was to save expenditure on *Arbeitslosenhilfe* for the Federal budget, which was needed for the promised increase in pensions (see above). Instead of creating 'arbitrary' age brackets and defining employees of 42 years of age as older workers, *Arbeitslosengeld* should have been increased for all long-term unemployed (BT-Verh., 5 June 1987, p. 1069). It was pointed out that 600,000 *Arbeitslosenhilfe* recipients would not gain from the changes introduced (BR-Verh., 3 April 1987). The unions, while emphasising the importance of the 'equivalence principle' (between contributions and benefit entitlements) also rejected differentiations on the basis of age (DGB, 1987a, p. 5).

Financial considerations seem to have been the main cause for another Bill enacted in January 1988. This 8th AFG Amendment Act included some changes for unemployed claimants and will briefly be referred to here because of its significance in relation to changes introduced in 1989. It can also illustrate once again the implications of the specific funding structure for labour market programmes and unemployment compensation in West Germany (for details of the legislation see *Bundesarbeitsblatt*, 1, 1988 and Bieback, 1989). The main proposal was a transferral of costs for German language courses,¹ and also of educational assistance for young people with learning difficulties, from the Federal budget to the *Bundesanstalt*. This caused additional expenditure amounting to 950 million DM for the *Bundesanstalt*, while the Federal budget saved 901 million DM. There was general agreement among critics that the programmes, referred to above, could be regarded as related to neither labour market schemes nor unemployment insurance provision. Unions (DGB, 1987b), the *Bundesanstalt* (*Handelsblatt*, 8 October 1987) and also employer organisations (*Handelsblatt*, 7 August 1987) accused the government of transferring national responsibilities from the state to the *Bundesanstalt* in order to save money. The opposition rejected the amendment which was described by Günther Heyenn (SPD) as a 'lousy financial trick', 'restacking the financial

¹ For ethnic German immigrants and political asylum seekers.

burden' from the Federal to the *Bundesanstalt* budget (*Süddeutsche Zeitung*, 13 November 1987).

The legislation included three changes which concerned unemployed claimants. Firstly, access to *Arbeitslosengeld* and *Arbeitslosenhilfe* for students and pupils was made harder because it was maintained that these groups were 'generally not available' for insured employment (18 hours per week). Secondly, in case there had been an 'unusual rise' in the level of earnings before becoming unemployed, the overall income of the whole of the previous year (instead of the past three months) was taken into consideration in calculating benefit rates and, thirdly, registered unemployed not in receipt of *Arbeitslosengeld* or *Arbeitslosenhilfe* would be removed from the unemployment count if they did not register every three months with the local employment office. The Act was passed in November and came into effect in January 1988. Apparently, the FDP only agreed to the changes on the condition that an expected deficit in the *Bundesanstalt* budget in the following years would not be covered by an increase in contribution rates to the *Bundesanstalt*.

5. Implications of a return to deficits in the *Bundesanstalt* budget

Unemployment increased slightly to 2.24 million during 1988. Although the number of people in employment was still rising, increasing revenues for the *Bundesanstalt*, a deficit in the budget was expected by the end of the year (*Frankfurter Rundschau*, 17 February 1988). Expenditure had increased as a result of the changes implemented in the 8th AFG Amendment Act (see above). But the rise was also caused by increased expenditure on both 'active' labour market programmes and *Arbeitslosengeld* payments. By November 1988 the number of *Arbeitslosengeld* recipients as a proportion of all registered unemployed had risen again after a low point in the mid 1980s (see Chapter 4, figure 4.2). This was partly the result of improvements of successive benefit entitlements (see above) but also influenced by the increased influx of immigrant workers with German origin from Eastern Europe who were, normally, immediately entitled to *Arbeitslosengeld*.¹

As a response to the deficit and in order to limit subsidies from the Federal budget to the *Bundesanstalt*, an increase in contribution rates from 4.3% to 4.8%

¹ In November 1988 approximately 80,000 immigrants with German origin were registered as unemployed (*Monatsberichte*, 1989, p. 15) while the total number of immigrants with German origin rose from 203,000 in 1988 to 377,000 in 1989. The number of immigrants from the GDR increased during the same period from 40,000 to 344,000 (see *Bundesanstalt für Arbeit*, 1990, p. 677).

was discussed within the Ministry of Labour and Social Affairs (*Frankfurter Rundschau*, 20 May 1988). This rise of 0.5% but also the implementation of cuts in some programmes were agreed upon by Norbert Blüm and the Minister of Finance (*Frankfurter Rundschau*, 6 June 1988). However, the FDP, anxious not to impose additional burdens on companies, opposed higher contribution rates. As indicated earlier, the FDP's agreement to the 8th AFG Amendment Act had been conditional on the restraint of a rise in contribution rates to the *Bundesanstalt*. Thus, the decision to increase contributions was reconsidered (see *Frankfurter Rundschau*, 16 June 1988) and later rejected by the government - and compensated by more substantial cuts in the *Bundesanstalt* budget (see *Frankfurter Rundschau*, 16 August 1988).

In the Bill for the 9th AFG Amendment Act (BT-Drs., 1988a) it was stated that, in order to retain 'the high standard' of labour market policies, a 'consolidation of specific programmes' was necessary (*ibid.*, p. 2). Overall savings were expected to amount to 1.26 billion DM in 1989 with another 540 million saved in 'operational' areas to be decided by the *Bundesanstalt* (i.e. programmes with discretionary scope for savings, *ibid.*, p. 15). Workers of more than 63 years (who had previously been excluded from contributing to the *Bundesanstalt*) were now required to pay contributions and both labour market programmes and unemployment benefit provisions were affected by cuts (for details see Bieback, 1989).

The reductions in labour market programmes were justified by arguing that a financial and capacity limit had been reached for both training and job creation schemes. For almost 600,000 participants in training and retraining programmes and 114,000 people in job creation schemes (in 1987) more than 14.4 billion DM was expected to be spent in 1988. A consolidation was necessary because costs could not be covered by contributions any longer (BT-Drs., 1988a, p. 14). Individual organisations within both sides of industry, it was claimed, had started to complain about the extent of job creation programmes which would be used by public employers to fill job vacancies (BR-Verh., 16 December 1988, p. 501). A limit had apparently been reached, the minister argued, because the 'second labour market' (publicly subsidised forms of employment) would start to drive out jobs in the 'first labour market' (BT-Verh., 2 December 1988, p. 8265; see also Franke, *Handelsblatt*, 13 January 1988).

Proposals included two alterations for unemployed claimants. Firstly, illness during periods of receipt of *Arbeitslosengeld* (when workers were in receipt of sickness benefit) would no longer lengthen the entitlement to *Arbeitslosengeld*.

In Committee, SPD representatives attacked this proposal. *Arbeitslosengeld* was a benefit granted for periods of unemployment during which claimants were supposed to be available for employment and seeking employment. Because this was 'generally not an option for an ill person', the proposed reduction of *Arbeitslosengeld* entitlement for unemployed workers with periods of illness was a 'punishment for ill-health' (BT-Drs., 1988b, p. 10). The second proposal concerned unemployed workers below the age of 25 who would receive *Arbeitslosengeld* for reduced periods only. The maximum *Arbeitslosengeld* entitlement for those below 20 was to be reduced to 6 months and for those between 20 and 25 to 9 months. The government argued that the reduction in benefit entitlements for unemployed claimants below the age of 25 would 'take into consideration that younger unemployed had been members of the unemployment insurance system for a shorter period' and also that for them 'the average duration of unemployment was generally short' (BT-Drs., 1988a, p. 16). The FDP emphasised that a reduction in *Arbeitslosengeld* entitlement for younger claimants was introduced in order to encourage mobility of younger workers (BT-Verh., 29 September 1988, p. 6629).

The Bill aroused widespread criticism in particular with regard to the proposed changes affecting training and job creation programmes. Also the reduction of benefit entitlement for younger claimants was attacked. This proposal had apparently been suggested by the FDP and created a dispute within the coalition. Social policy experts in the CDU argued that the suggestion stood against the principle of 'equal rights' based on contributions. If implemented, a 24-year-old unemployed worker with a contribution record of 8 years would be disadvantaged in comparison with a 25-year-old academic with only 2 years of contributions paid (see *Handelsblatt*, 20 October 1988). Also, the cost-saving effect, it was pointed out, was low (see *Westfälische Rundschau*, 2 September 1988). The opposition against the benefit cut affecting younger claimants was joined by opposition parties, the *Bundesanstalt*, local authorities and individual *Länder* (see *Westfälische Rundschau*, 30 September 1988).

During the first reading of the Bill the government emphasised that, due to the prospective deficit of 5 billion DM in the *Bundesanstalt* budget for 1988, programmes had to be cut in order to reduce subsidies from the Federal budget. The option of raising contribution rates had been ruled out as 'socially intolerable' (BT-Verh., 29 September 1988, p. 6625). This was particularly stressed by the FDP, who argued that low wage-related costs were 'decisive for the international competitiveness of the export nation' West Germany (ibid., p.

6628). The FDP claimed it had warned the government against extending benefit entitlements in the previous years, as such measures had contributed to the deficit in 1988. A system of granting benefit entitlements according to individual contribution periods was more reasonable (ibid., p. 6629). The SPD opposition accused the government of planning to introduce a 'targeted hit' against younger workers, people with ill health and the long term-unemployed (ibid., p. 6627). At a public hearing held by the Committee of Labour and Social Affairs on 24 October 1988, representatives of a number of organisations raised objections particularly concerning the proposed changes for younger unemployed and the plans in relation to job creation programmes (see *Handelsblatt*, 25 October 1988).

The concerted criticism was effective in part. The government decided to limit the planned reduction of the funding of job creation programmes (see Bieback, 1989). The suggested reduction of *Arbeitslosengeld* for younger unemployed was fully withdrawn. Apparently, financial considerations were important. CDU social policy experts succeeded by maintaining that the proposal (which would have affected 100,000 claimants) was not an effective short-term cost saving instrument (see *Die Welt*, 25 November 1988). The FDP conceded the repeal after the CDU/CSU had agreed to set up a commission with the objective of examining whether a system of individual accounts of contribution records determining individual *Arbeitslosengeld* durations could and should be implemented (see *Handelsblatt*, 28 November 1988 and BT-Verh., 2 December 1988, p. 8252). The 9th AFG Amendment Act became law in January 1989.

6. Conclusion

The overall economic context for legislative changes in unemployment benefit provision during the second half of the 1980s included annual growth rates of up to 4%, relative price stability and a steady increase in employment due to demographic factors and (later) increased immigration from Eastern Europe. The government reacted to continuous high unemployment by introducing further policies with the aim of reducing labour supply (early retirement schemes, improved benefits for periods of child rearing) and the expansion of training and retraining programmes and job creation schemes. Unemployment remained high however with average annual levels of about 2.2 million people out of work between 1984 and 1988.

Long-term unemployment was rising too and, due to the exhaustion of benefit entitlement, the proportion of *Arbeitslosengeld* recipients in relation to all

registered unemployed declined to levels lower than at any time in the previous three decades. The response was to extend entitlement rights to *Arbeitslosengeld* in three stages between 1985 and 1987 for claimants (above certain age levels) who had been in insured employment for longer periods. There was financial scope for these changes, since the *Bundesanstalt* had accumulated reserves, due to a growth in employment, and declining expenditure on *Arbeitslosengeld* as a consequence of a decreased number of recipients and cuts implemented in benefit provision since the early 1980s. 1988 saw a return of deficits in the *Bundesanstalt* budget and, accordingly, a return to policies of cut-backs in labour market programmes and unemployment benefit provision.

Accumulated reserves in the *Bundesanstalt* budget were not only seen by the government as a precondition for legislative changes, but also added pressure for benefit improvements. The paradoxical situation of high financial reserves in the *Bundesanstalt* budget at a time of mass unemployment was, outside of the government, widely regarded as proof of the dysfunctional structure of the unemployment insurance system in West Germany and contributed to a debate over possible reforms of the system. A second, but related, paradox within the system of unemployment compensation was that *Arbeitslosengeld* extensions acted as a device for the government to reduce expenditure in the Federal budget. Unlike times of deficit in the *Bundesanstalt* budget, the Minister of Finance quickly agreed with plans put forward by the Ministry of Labour and Social Affairs because improved *Arbeitslosengeld* payments released resources for other programmes which had to be financed by the Federal budget. This 'instrumentalisation' of the *Bundesanstalt* became even more apparent in 1988 when the 8th AFG Amendment Act was introduced which transferred the funding of programmes (which were widely regarded as the responsibility of the state) from the Federal budget to the *Bundesanstalt*. However, financial considerations were not the only factor influencing policy outcomes. Why were improvements introduced selectively, favouring claimants with better contribution records (above a certain age) rather than, for example, all long-term unemployed? In order to explain these policy outcomes, the position and motivations of political actors directly and indirectly involved in changing the income maintenance system for the unemployed will be briefly recapitulated.

Concerted and frequent demands not only from the opposition parties but also from the *Bundesanstalt*, some *Länder* (including those governed by the CDU) and local authorities, individual MPs within the CDU/CSU and the Ministry of Labour and Social Affairs seem to have had some influence on the introduction

of benefit improvements. In order to ease the burden on their budgets, local authorities and some *Länder* requested improvements in insurance benefit provision since this would reduce expenditure on *Sozialhilfe*. Opposition parties proposed major reforms of the existing social security system and suggested the introduction of a minimum income guarantee (Green Party). Less radically, the SPD proposed complementing the existing unemployment insurance scheme by a tax-financed minimum benefit level for all unemployed claimants (see also Heinze et al., 1987). The DGB suggested a rise in the level and duration of *Arbeitslosengeld* for all unemployed and the improvement of access to the unemployment insurance system. It also stressed however that the 'principle of equivalence' (between contributions and benefits) should remain a cornerstone of unemployment compensation. Finally, employer organisations stressed that an extension of *Arbeitslosengeld* entitlements should only be permissible if contributions to the *Bundesanstalt* were not raised.

Within the government, the Minister of Labour and Social Affairs repeatedly argued that an extension of *Arbeitslosengeld* entitlement, depending on age and contribution records, would be in line with two principles. Older unemployed claimants were disproportionately affected by long-term unemployment and had also paid contributions for longer periods. Thus, a 'targeted social policy', helping those most in need, would be linked with a policy of 'social justice', i.e. rewarding loyal contributors to the unemployment insurance system. The Ministry of Finance agreed with this line of argument it seems, not only for ideological reasons, since an improvement of *Arbeitslosengeld* payments would decrease expenditure on *Arbeitslosenhilfe* which had to be paid out of the Federal budget. The implementation of improvements in relation to periods of insured employment might also have been regarded as politically favourable by the CDU since major oppositional groups (such as the SPD and the DGB) continued to emphasise the importance of the retention of 'wage replacement benefits' guided by the traditional principle of 'equivalence' between contributions and benefit receipt.

Other criteria than age (such as low qualification levels, nationality, gender and region) also correlated with long-term unemployment and the length of individual contribution records appeared to be the more relevant variable for selective benefit improvements (reflecting the traditional notion of 'deserving' benefit claimants in West Germany). This interpretation can be reinforced considering the position of the junior partner in government. The FDP favoured an even more differentiated system of *Arbeitslosengeld* with entitlements based

on individual contribution 'accounts'. Indeed, the Liberal Party seemed to prefer a move to an unemployment benefit system guided by principles of private insurance, which would reduce elements of solidarity and redistribution of resources from 'good risks' to 'bad risks' (see BT-Verh., 5 June 1987, p. 1074).¹

However, there seems to have been a limit in the move towards such a scheme. The reinstatement of the 2:1 ratio between contribution periods and *Arbeitslosengeld* entitlement also improved benefits for those with shorter periods (but at least one year) of insured employment. Also, and perhaps more significantly, while the introduction of selective improvements (based on contribution records) proved to be unproblematic, the attempt to reduce the standard duration of *Arbeitslosengeld* for younger claimants (as demanded by the FDP) failed against strong criticism ranging from the Green Party to individual MPs within the CDU/CSU. This failure exemplifies, in my view, the strength of the traditional, and deeply ingrained, 'equivalence principle' within the 'wage-labour centred' (Vobruba, 1990) German social insurance system. While the implementation of selective improvements on the basis of contributions records seem to have been relatively unproblematic, the attempt made to cut back 'wage-replacement' benefits for certain groups on the criterion of age (rather than periods of insured employment) remained unsuccessful. The failed attempt to reduce benefit rights for younger claimants in West Germany seem particularly interesting considering the 'successful' changes in Great Britain (see above). I will reflect on these issues in the comparative assessment.

After deficits in the *Bundesanstalt* had reoccurred in 1988, new legislation indicated a return to restrictive measures in 1989. As in the mid 1970s and early 1980s, cuts were implemented in order to reduce Federal subsidies to the *Bundesanstalt*. Thus, policy-making at a time of deficits in the *Bundesanstalt* appears not to have changed by the late 1980s. The vulnerability and dependence of the *Bundesanstalt* on the Federal budget and on economic policy objectives during periods of reduced resources became apparent once again. Suggestions for other financial structures for the *Bundesanstalt* (see, for example, Schmid, 1986) have, so far, remained unsuccessful. However I will briefly reflect on some of these proposals in the context of German unification with regard to possible future developments in the concluding chapter.

¹ This impression was confirmed by a number of interviewees in West Germany.

Comparative assessment

During the second half of the 1980s the course of economic development in West Germany and Great Britain followed similar patterns. After the crisis in the early 1980s, economic growth rates improved steadily while annual inflation remained moderate. Unemployment started to decline in Great Britain after 1986 to below the level in West Germany (disregarding the number of redefinitions of the official unemployment count), where it remained stable, around the two million mark (see Chapter 4, figure 4.5). Long-term unemployment continued to be very high in both countries (see Chapter 4, figure 4.7) and both governments responded with an expansion of training and job creation programmes (especially for younger people in Great Britain) as well as with policies aiming to reduce the supply of labour (e.g. early retirement schemes) and the deregulation of labour markets in order, it was argued, to encourage employment.

Due to long-term unemployment but also to restrictive policies implemented in the first half of the 1980s, a growing number and proportion of unemployed claimants exhausted their entitlement to unemployment benefits in Great Britain and to *Arbeitslosengeld* in West Germany (see Chapter 4, figures 4.1 and 4.2). However, in West Germany this trend apparently reached a limit, at which time the government started to introduce changes which attempted to increase the coverage of *Arbeitslosengeld*. By contrast, the Conservative Party in Great Britain introduced successive benefit alterations which reinforced the declining role of insurance benefits. Below I will reflect upon these different policy decisions with reference to the position of the governments in both countries, acting within the context of different institutional arrangements for the payment of benefits to jobless people.

The British government, adopting a strategy used by West German governments in the mid 1970s and the early 1980s, limited the scope of insurance benefits by tightening the qualifying conditions for entitlement with regard to required minimum employment records in the second half of the 1980s. As discussed in previous chapters, in West Germany these measures were primarily motivated by the desire to reduce federal subsidies of the *Bundesanstalt* and to curb public expenditure at times of economic crisis. By contrast, the need to limit state spending in order to save costs became economically less important in Great Britain after the mid 1980s, because public funds were in surplus.

However, the ideological commitment to cut social security costs remained dominant during the second and third term of the Thatcher administration and can be regarded as a factor which influenced political decisions to tighten contribution conditions.

But other ideological themes, such as the continuous propagation of the need to improve work incentives and to tackle benefit abuse as well as the intention to reallocate resources to those in greatest need were also important. The exclusion of unemployed workers with less stable employment careers from receipt of insurance benefits seems consistent, with the emphasis on stopping a supposed trend towards a 'dependency culture' (see Moore, 1987). Changed benefit regulations were justified with reference to an assumed lack of work incentives on the part of unemployed claimants and the pressure on individual claimants to prove that they were 'actively seeking work' and also to accept lower paid employment increased, especially after 1986 when unemployment declined. This policy affected younger and single unemployed (as less 'deserving' claimants) in particular (see below).

The government's strategy of enforcing the ongoing shift from contributory to means-tested benefits was surprisingly easy to pursue. Only limited protest inside and outside Parliament might indicate the, compared with West Germany, underdeveloped contributory principle (which the government claimed to strengthen) and the less stigmatised perception of the means-tested Income Support scheme in Great Britain in comparison with the locally financed *Sozialhilfe* system in West Germany. Institutional factors such as the lack of earmarked contributions and of a separate and (at least to a certain extent) independent and self-administered body for the funding of unemployment benefit seems to have facilitated the relative ease with which the role of insurance benefits was further limited in Great Britain. By comparison, the general acceptance of the right to unemployment benefit based on contributions and on the principle of equivalence (between contributions and benefit receipt), maintaining the relative income position of claimants (rather than attempting to alleviate poverty), appears to have influenced policy decisions, widening *Arbeitslosengeld* coverage in West Germany. The structure of the administration and the 'wage replacement' type of unemployment benefits has traditionally been given high priority and strongly defended by trade unions, which can be regarded as one reason for its relative stability.

But also other endogeneous characteristics of benefit arrangements in West Germany contributed to the reversal of the trend of declining *Arbeitslosengeld*

coverage. As outlined, the fragmented and compartmentalised structure of financing *Arbeitslosengeld* (*Bundesanstalt*), *Arbeitslosenhilfe* (Federal budget) and *Sozialhilfe* (local authorities) acted both as a device for the government to save revenue as well as inducing strong political resistance to a widening of means-tested benefits mainly from municipalities and *Länder*, but also from the unions and even from the Ministry of Labour and Social Affairs. Also, it has to be noted that the free market ideology on the part of the British Conservative Party with the emphasis on individual work incentives, self help and a limitation of the role of collective welfare provision was (at least as far as unemployment insurance is concerned) not matched by the CDU/CSU in West Germany. Instead, it was the junior partner in government which unsuccessfully demanded a more substantial reduction of benefit levels and a limitation of benefit rights for younger workers. The FDP however appeared weak in the face of the widely accepted need to improve the function of *Arbeitslosengeld* as a prime form of income support for unemployment claimants, and it was the insurance principle which represented the most powerful argument against the proposals concerning younger contributors. By comparison, younger claimants in particular were affected by a number of both insurance (tightening contribution conditions) and assistance (reduced rates, abolition of benefit rights) benefit changes in Great Britain.

The importance of the financial situation of the *Bundesanstalt* became apparent again in the second half of the 1980s. As in earlier periods, the government's decisions in West Germany concerning benefit changes (and/or changes in contribution rates) were triggered off by expectations in relation to the situation of the *Bundesanstalt* budget. In the early 1980s, budget deficits led to annual attempts to reduce Federal subsidies and to restrictions of expenditure. By contrast, repeated cases of an annual budget surplus in the second half of the 1980s led to benefit improvements. However, characteristically, with regard to the strength of the equivalence principle in West Germany, the improvement of *Arbeitslosengeld* coverage was achieved by only helping better (and older) contributors, rather than by including more unemployed in the insurance system. For those with less stable contribution records on the fringes of the labour market, the benefit situation remained unaltered. This outcome can partly be related to the government's political objectives, but policy decisions were (as shown earlier) also shaped by a specific welfare state context with regard to benefit type and the fragmented structure and administration of benefit provision for the unemployed in West Germany.

In Great Britain on the other hand, only workers with longer labour market attachment remained eligible for insurance benefits, whilst unemployed with less stable employment careers were excluded from entitlement. As a consequence, the role of unemployment insurance became even more peripheral as means-tested benefits continued to grow in importance. Of course, this can be regarded as being the result of political objectives. However, the fact that the implementation of the changes occurred with such ease has to be interpreted with reference to the traditional British welfare state context in which (despite Beveridge's plans) the principle of contributory (or even earnings-related) unemployment benefits remained less developed and inferior to the idea of flat-rate universal income support. From this perspective, benefit changes in West Germany during the second half of the 1980s can be interpreted as having reinforced the intrinsic principle that certain unemployed people 'deserve' a better benefit provision than others because they are better contributors. In Great Britain on the other hand, the traditional notion was sustained that, primarily, social security claimants 'deserve' means-tested benefits because they are in need. The result was a further divergence, rather than a convergence, of respective national benefit arrangements for unemployed claimants.

In sum, in combination with political and economic factors, respective institutional arrangements have once again proved to be important for the explanation of policy outcomes. Similar situations (e.g. increased economic growth rates, conservative parties in power, high unemployment levels and a rising number of long-term unemployed) have not led to similar policy outcomes which has to be related to the influence of traditional principles and institutional arrangements which have facilitated or constrained the pursuit of policy options. For example, the fragmented nature of benefit provision for unemployed people in West Germany has had a particular impact on the perception and the power of different interest groups. As outlined, the role of local authorities, having to cope with the financial ramifications of a decline in unemployment insurance coverage, has become apparent. As in the early 1980s, it can be argued that the lack of similar arrangements and thus of local pressure has eased the implementation of policies in Great Britain which reinforced the erosion of unemployment insurance coverage. Also, the strength of the engrained earnings-related contributory principle in West Germany has been exemplified by the concerted and successful protest against plans to reduce benefit entitlements on grounds other than contribution records. In the final chapter I will reflect on the

implications of these and other results from the three previous chapters in the light of assumptions made in earlier parts of the study.

Chapter 9

Conclusion

The discussion has shown that policy decisions concerning unemployment benefit regulations between the mid 1960s and the end of the 1980s were influenced by a number of factors, such as changes in the level of unemployment, the perception of unemployment as a social and political problem, expectations of future trends, economic developments, prevailing economic policy doctrines, and the composition of governments. In the comparative sections of Chapters 5 to 8 I have discussed these, and other influences concerning different periods in detail. This concluding chapter briefly considers some of the current economic, political and ideological factors which proved to be important in both countries and argues that an explanation of policy outcomes has to go further, taking account of institutional variables. A major finding of the study is that already established welfare principles and benefit arrangements have indeed played a significant role, influencing interests and shaping policy decisions. Against this backcloth, I will conclude the study with a brief consideration of possible future developments in Great Britain and the now unified Germany.

Explaining policy changes of unemployment compensation

In line with assumptions made in the first two chapters, a number of political and economic variables have proved to be important with regard to policy outcomes. A major finding of the research is that the level of unemployment itself was significant with respect to its effect on public expenditure and in relation to the anticipated impact on social and political stability. Furthermore, the research has illustrated the effect of changing public attitudes towards unemployed claimants, at times utilised or manipulated by governments in order to legitimise policy decisions.

Benefit regulations became more generous at times. For example, in West Germany, benefit levels were increased and access to eligibility for insurance

transfers was widened in 1967 and again in 1974, not least as an attempt to maintain social stability and to secure the government's political survival. In the 1980s, benefit rights were extended but only for contributors with lengthy and stable work careers. In Great Britain, benefits were improved in 1966 with the introduction of earnings-related supplements, implemented primarily with regard to facilitating economic restructuring. In the mid 1970s long-term benefit levels (not applicable to any unemployed claimants) were repeatedly uprated by a higher margin than short-term scale rates. Only in 1976 was this reversed and unemployed (and other) claimants granted a higher increment. There were no benefit improvements for unemployed people in the 1980s.

However, benefit systems also became less generous at times, despite (and sometimes because of) high levels of unemployment. The attempt to limit public expenditure was one important explanation for this outcome (see below) but the traditional notion of the unemployed as 'less deserving' benefit claimants remained a powerful influence. Stricter regulations, introduced between 1966 and 1968 in Great Britain, affected especially young and single supplementary benefit claimants who became the main target group again in the 1980s. In West Germany, as outlined, benefit regulations became stricter after 1975 and in the first half of the 1980s. Target groups were those with less stable and shorter contribution periods, i.e. job starters, casual workers, graduates, women, people returning to the labour market etc. In fact, the study has shown that throughout the period under investigation changes in unemployment compensation in West Germany affected these groups in particular while for 'more deserving' workers, i.e. 'better' contributors to the unemployment insurance scheme, hardly any negative restrictions were implemented.

The analysis has demonstrated that the financial repercussions of high unemployment have had a strong influence on policy decisions in both countries - albeit in a different context (see below). A second aspect of rising unemployment was its effect on the political as well as public concern about unemployed benefit claimants. In brief, policy outcomes were very much influenced by the perception of claimants as 'victims' of economic circumstances outside of individual control or as 'villains' who were regarded as (at least partly) responsible for having been made redundant and for remaining jobless. The discussion has shown that perceptions changed considerably during the period under investigation. In the 1960s and early 1970s, governments were anxious not to give the impression that they had given up the struggle against unemployment. This became apparent in 1972 in Great Britain with the

Conservative government's U-turn in its economic policy based on an uncertainty with respect to social and political implications of high unemployment. In West Germany, where unemployment levels had been consistently lower, benefit rates became more generous in 1967 and also in 1974 not least due to similar anxieties concerning potential effects of unemployment with regard to political stability and social unrest.

Governments' perceptions changed in the mid 1970s. Gradually, policy makers in both countries seemed to realize that higher unemployment levels were compatible with relative political stability. One aspect of monetarist ideas, which became more pronounced in both countries, was that a larger margin of unemployment should be accepted. The attempt to return to levels of full employment, as perceived in the 1950s and 1960s, became regarded as neither feasible (since some of the unemployed were allegedly 'unemployable') nor desirable because, it was argued, such an endeavour was in conflict with the objective of saving public expenditure. Keynesian economic policies became further discredited in the mid 1970s when rising unemployment and high inflation rates coincided (stagflation) rather than being in trade-off. Also, it became apparent that the social composition of unemployment had changed. In contrast to the mass unemployment in the 1930s, unionised workers were hardly (or only for short periods) affected by joblessness compared with groups on the periphery of the labour market (e.g. older and younger workers, *Gastarbeiter* and handicapped workers). Since these groups were politically weak, serious demands for benefit improvements (from, for example, unions) were rare.

The study has also shown that public perceptions of jobless people changed during periods of rising unemployment, often following a regular pattern. When unemployment started to rise, initially sympathetic attitudes turned more indifferent and later aggressive towards unemployed people. The combination between high and stagnant unemployment levels and a reduction in average earnings regularly appears to have triggered off growing public concern, fuelled by media campaigns, against an allegedly rising number of 'workshy' benefit claimants. The press in both countries concentrated on individual cases of benefit fraud, and opposition parties made use of the (mainly unsubstantiated) allegations as a platform for criticism against governments. However, governments also used (and sometimes reinforced) public debates on workshyness in order to deflect from the failure to fight more effectively against high unemployment. Concern about benefit abuse helped to justify policy decisions such as selective benefit infringements, aimed in West Germany, at

groups of unemployed who could not rely on lengthy contribution records. In Great Britain, cut-backs affected all unemployed claimants (e.g. through insufficient upratings of benefit levels) and, as outlined, young people became a target group particularly in the 1980s. As discussed in Chapter 8, this has to be related to wider policy objectives with regard to the labour market, including a reduction in wage levels for young people, which, for reasons of moral hazard, required lower benefit rates.

However, wider political variables have to be considered, such as changes in economic policy doctrines and ideological positions of ruling parties. In the 1960s governments in Great Britain and West Germany made steps towards more forward economic planning and corporate economic policy making, consulting both unions and employer organisations (to different degrees in the two countries). In the mid 1970s both governments initially reacted with expansionary policies to the economic recession but within a few years countercyclical Keynesian deficit spending was abandoned and the fight against inflation and attempts to curb public spending became dominant. In the early 1980s deflationary policies were reinforced as well as the curbing of social spending, facilitated by a welfare backlash. However, a much more radical shift in policy making and in the government's ideology with regard to economic and welfare policy occurred in Great Britain where the Thatcher government was able to rely on a strong majority in the House of Commons. Public spending in particular areas of social expenditure was reduced (although it increased in total), and repeated ideological attacks were made against the welfare state and on social security in particular.

In West Germany governments usually consist of coalitions between either the SPD or the CDU/CSU with the Liberals as junior partner. In contrast to Great Britain, this seems to allow more stability with regard to policy formulation. It was the FDP's commitment to a free market ideology which came closest to the British government's position. Its ideological stance with regard to economic and also income support policies was opposed by the SPD which eventually led to a break-up of the coalition in 1982. However, while cooperation with the CDU/CSU in a large number of policy fields was possible, the FDP's position towards social security remained unsympathetic in the newly formed coalition. With regard to changes in unemployment compensation, compromises had to be found and while (in accordance with the FDP) economists within the CDU emphasised the need for a reduction in contribution rates, the Liberal Party's plan for a more individualised unemployment insurance systems were successfully

blocked by the social policy wing in the CDU, including Norbert Blüm, the Minister of Labour and Social Affairs.

The fact that the Minister was a union member might indicate the different influence of the DGB compared with the TUC in the 1980s. In West Germany, the unions' influence on government social security policies was clearly reduced after the SPD-led government had broken up. Yet, the DGB's position appears to have remained relevant for political debates within the new coalition. With regard to policies towards unemployment compensation, there was some degree of consensus between the DGB and the CDU's social policy wing. In contrast, the newly elected Conservative government in Great Britain did not try to make any attempt at cooperation with the unions but, for ideological reasons, started to confront the TUC as early as 1979.

However, differences in union influence on changes (or the decision to refrain from changes) in unemployment compensation were already apparent in the 1970s. Both the SPD and the Labour Party relied upon cooperation with and the support of the unions. The TUC's influence on the Labour Party's manifesto was very strong in 1974 and the preoccupation with improvements in retirement pensions appears to have been one (but, as demonstrated, not the only) important factor which preempted benefit improvements for the unemployed. The demise of the ERS has also to be related to the TUC's somewhat indifferent position - yet, again, the study has shown that this has to be placed within an institutional context of policy legacies (see below). In West Germany, the DGB's position was very influential on the prevention of cuts in benefit levels in the mid 1970s and in the early 1980s. During the period of the SPD-dominated coalition, the need for a cooperation with the DGB was a pivotal factor in the decision not to make a direct cut in benefit levels which were demanded by some FDP ministers. Yet even under a Conservative/Liberal coalition, only selective benefit cuts were implemented rather than a general reduction in benefit rates which had been demanded previously. As shown in previous chapters, these differences with respect to unions' influence on, and interest in, policy formulation has to be interpreted with reference to particular institutional arrangements and benefit principles in the two countries.

To sum up, the study has shown that a number of economic, social and political factors have been relevant in both countries, albeit often at different times and also to different degrees. Yet the explanation of policy outcomes has to go beyond a consideration of factors discussed so far. Distinct institutional and structural differences have to be taken into account. As suggested at the

beginning of this study, particular policy legacies and institutional frameworks proved to be significant influences on policy decisions in the area of unemployment compensation.

The role of welfare legacies and institutional arrangements

The historical development of unemployment benefit arrangements and institutional frameworks were outlined in Chapter 3, and current regulatory structures in West Germany and Great Britain were described in Chapter 4. The relevance of these institutional arrangements and principles for policy decisions were demonstrated in the subsequent analysis of benefit changes since the mid 1960s. In general, distinct national settings and principles remained a stable frame of reference for policy decisions while some of the political and economic influences, discussed in the previous section, varied during the period under investigation.

As argued at the beginning of the study, distinct institutional frameworks have to some degree structured the relationship and the power of groups directly or indirectly involved in policy decisions concerning unemployment benefits. The study has demonstrated how institutions affect both the degree of power any one group of actors has over policy outcomes and the definition of particular interests, establishing institutional responsibilities and patterns of relationships between different groups of actors. This became apparent with regard to, for example, the position of unions. As the study has shown, due to the earnings-related character of insurance benefits and the particular funding arrangement of unemployment insurance benefits, the interests and influence of unions (via the *Bundesanstalt*) in West Germany is more prominent than that of their counterparts in Great Britain. Another example is the role of local authorities. The particular institutional setting in West Germany means that certain policy options are unlikely to be pursued by the government (or blocked by local authorities) due to the anticipated effect on budgets on the local level.

More generally, the study has demonstrated that a number of different factors proved to be important - foremost the funding and administrative frameworks for unemployment insurance benefits; the institutional and financial link with either social security benefits or 'active' labour market programmes; the compartmentalised West German benefit structure compared with the centralised insurance and assistance benefit arrangements in Great Britain; and also the type

of earnings-related and earmarked contributions and benefits in West Germany in contrast to the British system of general national insurance contributions and universal and modest flat-rate transfers. These arrangements or policy legacies in the two countries can guide, constrain or facilitate policy decisions to a considerable degree by shaping interests and narrowing the scope of seriously considered policy options. Based on the table below, depicting the most significant institutional differences in the two countries, some of the major findings of the study can be summarised

Table 9.1.: Institutional influences in Great Britain and West Germany with respect to policy changes in unemployment benefit legislation

institutional variable	Great Britain	West Germany
benefit arrangements and funding	centralised	fragmented/ compartmentalised
type of unemployment insurance benefits	flat-rate	earnings-related
role of unemployment insurance benefits	relatively minor	major
number of groups/interests affected by policy changes	small	relatively large

Perhaps the most important difference between the two countries proved to be the different administrative and funding arrangements. Unemployment benefits are a part of the general social insurance system in Great Britain which, in turn, (as assistance benefits) are an integrated part of government's social spending. Administratively and with regard to the way they are financed, unemployment insurance benefits are linked with other national insurance transfers, and expenditure on Income Support comes out of the overall social security budget. Also, both the National Insurance Fund and revenue for social security are under direct control of the central government. This means that the implications of particular political decisions are clear. Savings or additional spending accrue to only a single actor, i.e. the central government or a particular government department.

The ramifications of policy decisions in West Germany (and now also in unified Germany - see below) are more diffuse. As demonstrated, the fragmentation of benefit arrangements for unemployed people into three separate funding mechanisms, based on three different social security principles, has particular implications for the direction of policy changes. Benefit cuts and a decline in insurance coverage can have serious repercussions for local authorities who will protest against a growing financial burden of *Sozialhilfe* provided for unemployed people. Benefit improvements, on the other hand, can result in a reduced financial burden for the government (*Arbeitslosenhilfe* funded by general taxation), as well as for communities (funding *Sozialhilfe*) but increased expenditure for the *Bundesanstalt* (*Arbeitslosengeld* funded by contributions). The government in West Germany is legally required to balance the *Bundesanstalt's* annual budget but only if deficits occur. As long as there are no deficits in this separate and self-balancing budget, benefit restrictions or contribution increases seem unlikely. The study has shown that only when deficits in annual budgets occurred were debates were triggered off about ways to reduce federal subsidies. Thus, findings in this study suggest that this separate funding arrangement (in combination with the DGB's rejection to benefit reductions and to concede cuts in active labour market programmes instead) gives insurance benefit levels some degree of immunity against politically motivated cuts.

In the post-war period a gradual transition of the funding principle for social insurance benefits from flat-rate to earnings-related was introduced in Great Britain (see Baldwin, 1990), underlining the point made in earlier chapters that welfare characteristics (and indeed whole welfare regimes) are not invariable but can change over time. However, the study has demonstrated that the principles and legacies with regard to unemployment benefit provision depicted in the table above have remained stable. The research has shown the ease with which earnings-related supplements to unemployment insurance benefits were abolished. This, it is argued, has to be attributed to the prevailing notion of flat-rate benefits in Great Britain, which can be exemplified by the neglect of the ERS after its introduction in the 1960s on the part of both major parties as well as the unions and welfare groups.

In contrast, the earnings-related insurance benefits and the notion of 'equivalence' in West Germany remain principles strongly supported by unions, the SPD and even large parts of the CDU/CSU. Results of the study suggest that policies intending to infringe benefit rights on a basis other than insufficient

contribution records will be confronted by criticism ranging across the political spectrum. Despite frequent demands, the level of unemployment (insurance) benefits remained largely untouched throughout the period under investigation, reflecting the support for the 'wage replacement' character of *Arbeitslosengeld* and *Arbeitslosenhilfe*. Thus, while the rights of workers in standard employment relationships (Hinrichs, 1991) seem fairly well protected, infringements affect mainly unemployed claimants with less lengthy and stable contribution records.

Improvements of benefit regulations in West Germany in the second half of the 1980s also illustrated the particular role of the *Bundesanstalt*. A surplus in the *Bundesanstalt* budget seemed not only to represent the financial limit for improvements but also increased pressure for policy change at a time of a continuous erosion of unemployment insurance coverage and, consequently, an increased reliance on local *Sozialhilfe* (which is perceived as highly stigmatising) for unemployed workers. Characteristically, improvements were selective and directed at unemployed claimants with longer contribution records (compensation principle) rather than all long-term unemployed (need principle). A similar pressure against the gradual but continuous decline of unemployment insurance coverage and the increased importance of means-tested assistance benefits in Great Britain was lacking. This, I would argue on the basis of the findings in this study, has to be related to both the comparatively weak notion of insurance benefits as the primary and single form of unemployment compensation in Great Britain (in contrast with Beveridge plans) and the less pronounced separation between flat-rate insurance transfers and means-tested assistance benefits with regard to their administration, funding and inherent principles. As the study has clearly demonstrated the gulf between insurance (labourist social policy) and assistance benefits (poverty policy) is much wider in West Germany than it is in Great Britain.

Finally, emphasising the interdependence of these institutional variables, they influence the interests and actions of groups involved, or interested in, policy decisions with regard to unemployment benefits. The research has shown that the number of actors with different (and sometimes overlapping) vested interests in policy decisions differs markedly in the two countries. In West Germany, apart from unemployed claimants themselves (as the group directly affected by benefit changes), policy decisions made by the government have an impact not only on the central government's revenue, but also on the *Bundesanstalt*, on unions and employers, on municipalities and local authorities and at times on other separate social insurance agencies (pension and health insurance schemes).

In Great Britain, there is no provision for the unemployed administered and funded by local authorities, which explains the lack of local pressure. There are no earmarked contributions nor is there an involvement of unions and employers in the funding and administration of a separate agency outside of the government dealing with unemployment benefits. Thus, the number of actors with vested interests (and therefore possibilities of changing coalitions of interests) is much smaller in Great Britain. As referred to earlier, the effect of policy decisions is easier to anticipate and potential opposition more limited. In short, different institutional arrangements and principles mean that for central governments the implementation of unemployment benefit policies is potentially much less restricted in Great Britain than in West Germany.

This assessment of some of the main findings has demonstrated that current changes in economic and political variables cannot fully explain benefit changes in the two countries. The study suggests that structural and institutional arrangements, or 'welfare legacies', within which particular national benefit systems operate, have to be carefully identified and their respective influence has to be considered for the explanation of benefit changes. This has implications for cross-national research on the development of welfare programmes. A cross-national analysis of unemployment compensation which, for example, merely recognises the distinction between unemployment insurance and assistance schemes remains insufficient.

Assessing the overall period under investigation, social security provision for the unemployed in both countries has become more targeted on 'deserving' claimants - provided traditional characteristics of desert are applied. In West Germany the principle has been reinforced that unemployed claimants 'deserve' better benefits if they are better contributors. In Great Britain, the traditional notion has been strengthened that unemployed benefit recipients 'deserve' means-tested benefits provided they are in 'real need'. Thus, a central finding of this study is that national social security arrangements for unemployed claimants in the two countries under investigation appear to have become less rather than more similar - a process of divergence rather than convergence of benefit systems was observed.

This opens up a number of questions concerning the intended future harmonisation or even integration of social security arrangements within the EC. The analysis has demonstrated that the strength of traditional welfare structures can not easily be overcome. Furthermore, considering signs of a move towards convergence in the 1960s, the trend of growing divergence since the mid 1970s

suggests that under conditions of high unemployment a European integration of national benefit regulations for unemployed claimants seems considerably harder to achieve than at a time of low unemployment. However, rather than speculating about the longer-term future, I would like to conclude the study by briefly reflecting on possible developments of unemployment compensation in Great Britain and Germany in the near future.

Expectations and speculations

Between the end of the period under consideration and the time of writing (June 1992) significant political and labour market changes have occurred. East and West Germany were united in 1990 and unemployment has risen steeply especially in the area of the former GDR. In Great Britain the Conservative Party won a fourth election victory despite a deep economic recession and unemployment figures approaching the 3 million mark. What are the possible implications of these developments for unemployment compensation in the two countries?

In Great Britain, unemployment insurance coverage continued to decline throughout the 1980s. The rise of unemployment since 1990 (more people entering the unemployment register) explains the increase in the proportion of claimants covered by unemployment benefits. Yet, considering the high unemployment level, this share is still not very large and is likely to decline again when the rise in unemployment ceases and long-term unemployment increases. Thus, it seems possible that for an even larger proportion of unemployed claimants than in 1989, Income Support will remain the last and only resort. What is the likelihood of political changes in the medium future which will either widen access for entitlement to insurance benefits for unemployed claimants or abolish unemployment insurance altogether?

The fourth consecutive election victory for the Conservative Party makes a reversal of policies which reinforced the decline of unemployment insurance throughout the 1980s unlikely. However, a complete abolition of unemployment insurance benefits seems also improbable for reasons which were outlined in Chapter 8. To recapitulate briefly, national insurance contributions are an important source for public revenue. As discussed earlier, the government's perception of the public belief (however spurious) of a right to benefits based on contributions appears to have been a relevant consideration in the decision not to

abolish unemployment insurance in the mid 1980s but to restrict access to it instead. Also, while ideological arguments in favour of 'targeted' benefits seem still prevalent, this does not automatically point to a total abolition of unemployment insurance. Relating to the fact that only a small minority of unemployed claimants is currently in receipt of insurance benefit, it can be argued that policy objectives have already been achieved. Finally, the government's ideological fervour for a radical change in unemployment compensation seems to have ceased somewhat, expressing perhaps a more moderate policy course within the Conservative Party since the end of the Thatcher era.

In the new Federal Republic of Germany, unemployment-related expenditure has been increased as a consequence of the steep rise of joblessness in the eastern half of the country. However, the largest part of the costs of the unification in terms of financing more job creation and training programmes as well as unemployment benefits was borne not by taxpayers but by contributors to the *Bundesanstalt*. In April 1991 contribution rates were raised to an unprecedented level of 6.8% in order to balance an expected deficit in the budget of over 20 billion DM by the end of the year. As far as legislative changes with regard to unemployment insurance and 'active' labour market policy programmes were concerned, the AFG and other regulatory frameworks previously in operation in West Germany remained intact in the context of the new Germany. However, in order to soften the impact of the breakdown of the former East German economy for unemployed workers, some transitional arrangements were introduced. For example, short-term working allowances (normally granted to workers on reduced working time provided their company can be expected to return to full-time work) were paid to workers in the former East Germany despite the likely demise of companies. Even zero working hours were sometimes accepted for the granting for short-time working allowances. This regulation was in place until the end of 1991 and was a major reason why the official unemployment count up to that time was statistically subdued.

Another transitional arrangement was that, for both *Arbeitslosengeld* and *Arbeitslosenhilfe* payments in the former East Germany, a universal 'floor' or minimum benefit level was introduced irrespective of former individual levels of earnings. A similar minimum benefit level was introduced for the receipt of state retirement pensions. The reason for this regulation, which defies the traditional German principle of equivalence between earnings and benefit levels, was both political and pragmatic. In order to prevent social protests and to gain political

legitimacy, the impact of unemployment had to be softened by granting benefits at least as high as the means-tested social assistance level. Secondly, the system of locally administered and financed *Sozialhilfe* is not yet in full operation, mostly due to the fact that municipalities in the former East Germany are simply not in the position to cope with the financial burden of unemployment.

However, these regulations have a transitional character. In general, the present government coalition simply transferred the West German social security system to a unified Germany, including the implementation of the traditional institutionally and financially fragmented unemployment compensation structure without any minimum floor of benefits administered by the *Bundesanstalt*. Thus, also in the future, the last resort for a large part of the long-term unemployed and other groups outside of insurance coverage will be an application for locally administered, financed and means-tested *Sozialhilfe*. The question remains whether another government would change this outcome. According to party resolutions (SPD, 1988), and also to information from interviewees, the SPD is committed to introducing a minimum income guarantee into the systems of both state retirement pensions and unemployment insurance. Low personal benefit levels of *Arbeitslosengeld* or *Arbeitslosenhilfe* would automatically be topped up with a tax-financed supplement. This would rule out the additional receipt of *Sozialhilfe*, thus favouring lower paid workers but not those who do not qualify for either benefit administered by the *Bundesanstalt*. Nevertheless, while welfare legacies and traditional institutional arrangements would remain intact, if implemented, this regulation would indeed represent a new feature in the unemployment compensation scheme in Germany. However, as this study has demonstrated, political opposition against such a change can be expected to be very forceful.

Appendix A:

Results of general elections in West Germany and Great Britain

West Germany, Federal Elections, 1965 to 1987; (percentage of second votes)

	1965	1969	1972	1976	1980	1983	1987
CDU/CSU	47.6	46.1	44.9	48.6	44.5	48.8	44.3
SPD	39.3	42.7	45.8	42.6	42.9	38.2	37.0
FDP	9.5	5.8	8.4	7.9	10.6	7.0	9.1
Greens	-	-	-	-	1.5	5.6	8.3
Others	3.6	5.4	0.9	0.9	0.6	0.5	1.4

Source: *Statistisches Bundesamt*

Great Britain, General Elections, distribution of seats, 1964 to 1987

	1964	1966	1970	1974 (Feb.)	1974 (Oct.)	1979	1983	1987
Conservative	304	253	330	297	277	339	397	376
Labour	317	364	288	301	319	269	209	229
Liberal	9	12	6	14	13	11	23	22
Others	0	1	6	23	26	16	21	23
overall majority	Lab 4	Lab 98	Con 30	Lab none	Lab 3	Con 43	Con 144	Con 102

Source: Times Guide to the House of Commons, various years; for 1983 and 1987 the Liberal Seats include the SDP

Appendix B

table 1: basic structure of main social security benefits available for unemployed persons in Germany

	<i>Arbeitslosengeld</i>	<i>Arbeitslosenhilfe</i>	<i>Sozialhilfe</i>
recipients	unemployed contributors	unemployed contributors	anybody with income below a fixed subsistence level
conditions of receipt: 1. contributions	yes, at least one year in insured employment (within previous three years)	yes, exhaustion of <i>Arbeitslosengeld</i> or at least 150 days in insured employment	no, payment on household basis (see below) dependent on need
2. need	no but claimants' additional income is partly taken into account	yes income and savings of claimants and obligations to pay maintenance (after income disregards) for parents and children taken into account	yes all other income (including social security benefits) is fully taken into account, relatives have obligation to pay maintenance
level of benefit	68% of former net wage for claimants with children, 63% for others	58% for claimants with children, 56% for others	standard allowance for claimant, additions for dependants according to status and age; rent and energy costs covered and additional extra payments for specific claimants
duration of benefit entitlement	maximal one year after insured employment of 2 years if claimant is younger than 42, if claimants are at least: 42 years old - 14 to 18 months 44 years old - 20 to 22 months 48 years old - 24 to 26 months 54 years old - 28 to 32 months dependent on contribution record in past 7 years	principally unlimited, but subject to changes in personal and family circumstances	subject to changed financial circumstances

table 2: receipts, expenses and structure of expenses of the Bundesanstalt für Arbeit, 1970 to 1989, billion DM

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
1.receipts (1)	3.57	4.03	5.77	7.47	7.99	9.23	14.06	15.37	16.31	17.50	19.05	19.87	26.31	31.04	32.80	32.04	31.65	34.57	35.87	37.88
2.contributions (% of 3)	79.3	72.0	87.7	85.6	62.2	43.7	78.5	91.3	91.7	80.7	79.9	64.4	72.8	87.8	102.7	99.2	91.4	89.7	82.6	89.3
3.expenses	3.91	4.93	5.79	6.81	10.35	17.84	15.93	15.08	16.07	19.74	21.67	28.17	33.36	32.64	29.64	29.74	31.86	35.96	40.84	39.83
4.Arbeitslosen- geld(% of 3)	16.6	17.6	22.1	20.6	34.3	43.6	43.4	41.6	39.0	37.8	37.4	47.2	54.0	52.4	47.7	47.4	44.1	42.5	44.2	44.1
5.short time working all.. (% of 3)	0.3	2.2	4.8	1.0	6.6	12.4	6.2	3.9	3.7	1.7	2.2	4.5	6.6	9.4	6.0	4.1	2.8	3.4	2.4	1.1
6.promotion of vocational tr. (% of 3)	21.7	34.3	34.7	31.4	24.3	18.5	16.5	13.1	13.6	16.6	21.1	20.5	17.1	16.5	18.8	19.9	22.5	24.4	26.2	23.5
7.surplus/ deficit	-0.33	-0.90	-0.03	+0.66	-2.37	-8.60	-1.87	+0.29	+0.23	-2.24	-2.62	-8.29	-7.05	-1.61	+3.16	+2.31	-0.21	-1.39	-4.89	-1.95
8.Federal budget subsidy	-	-	-	-	-	7.28	2.99	-	-	-	1.84	8.21	7.00	1.58	-	-	-	-	1.02	1.93
9.reserves	5.71	4.80	4.79	5.44	3.08	1.77	2.92	3.25	3.47	1.30	0.59	0.73	0.77	0.40	3.56	5.82	5.51	4.13	0.13	
10.unemployed (thousand)	149	185	246	274	583	1074	1060	1030	993	876	889	1272	1833	2258	2266	2304	2228	2229	2242	2038

(1) without subsidies from the Federal budget

Source: Lampert, 1989, p.178; for 1989: figures based on Sozialbericht, 1990, p.162 and 163 and Bundesanstalt für Arbeit, 1990, p.649

table 3: *Sozialhilfe* recipients (HLU), and unemployment
as reason for receipt of *Sozialhilfe*, West Germany 1979 to 1989

	1) individual recipients of <i>Sozialhilfe</i> (HLU) (million)	2) main reason was loss of employment (%)	3) with additional receipt of <i>Arbeitslosengeld</i> or <i>Arbeitslosenhilfe</i> (%)
1979	1.31	-	6.6
1980	1.32	9.8	9.2
1981	1.29	12.3	9.9
1982	1.56	16.4	12.5
1983	1.73	19.3	14.3
1984	1.84	22.6	16.7
1985	2.06	25.0	17.8
1986	2.24	32.6	18.1
1987	2.33	32.7	19.7
1988	2.51	32.7	12.7
1989	2.77	32.6	12.6

Sources:

1: *Wirtschaft und Statistik*, various years; individual recipients who claimed *Sozialhilfe* (Hilfe zum Lebensunterhalt) at least once during the year (multiple claims included)

2: Welzmüller 1989: 373; for 1981: Büchtemann 1985: 455 (household basis); for 1988 and 1989: *Wirtschaft und Statistik*, 6, 1990 and 7, 1991; no earlier data available

3: Welzmüller 1989: 373; for 1975 to 1979: Alber 1989: 181 (household basis); for 1981: Büchtemann 1985: 455 (household basis); since 1988: figures are based on a new definition (see *Wirtschaft und Statistik* 1990: 424)

Appendix C:

List of Interviewees

Manfred Baden:

Ministry of Labour and Social Affairs: from 1966 to 1969 sub head and from 1969 to 1978 head of the division of labour market policy and unemployment insurance, from 1982 to 1987 Permanent Secretary (17 September 1990, Bonn)

John Battle:

Member of Parliament (Labour), former National Coordinator for Church Action on Poverty, member of Standing Committees on Social Security Bills since 1987 (11 November 1991, London)

Geoffrey Beltram:

Assistant Secretary National Assistance Board 1963 to 1966, Ministry of Social Security 1966 to 1968 and DHSS 1968 to 1973, Under-Secretary DHSS 1973 to 1981 (23 February 1990, London)

Ulrich Cramer:

Researcher at the Institute of Employment Research (IAB), Nuremberg (26 September 1990, Nuremberg)

David Dunford:

DSS, head of policy section responsible for social security policy towards 16/17 year olds and the actively seeking work condition (4 July 1991, London)

Jürgen Egert:

Member of Parliament (SPD); since 1976 member, and from 1987 to 1990 head, of the Committee of Labour and Social Affairs; Parliamentary Secretary at the Ministry of Labour and Social Affairs from April to October 1982 (2 October 1990, Berlin)

Manfred Hiltner:

Consultant for labour market policy and workers' co-determination for the working party 'social policy' at the SPD since 1973 (20 September 1990, Bonn)

Lord Jenkin of Roding:

Conservative spokesman on Social Services 1976 to 1979, Secretary of State for Social Services 1979 to 1981 (25 September 1991, London)

Jürgen Kühl:

Deputy director of the Institut of Employment Research (IAB) in Nuremberg (26 September 1990, Nuremberg)

Tony Lynes:

Secretary of the CPAG from 1966 to 1969, special adviser to the DHSS between 1974 and 1979, (22 September 1991, London)

Brian McGinnis:

DHSS, Under-Secretary, Insurance Division 1 (unemployment insurance benefit and earnings-related supplements), 1980 to 1982 (24 September 1991, London)

Karl Pröbsting:

Head of the sub-division of principle questions of Labour Law at the Ministry of Labour and Social Affairs since 1982 (17 September 1990, Bonn)

Hartmut Seifert:

Labour market policy expert at the Economic and Social Research Institute (WSI) of the DGB (20 September 1990, Düsseldorf)

Clive Smee:

Senior Economic Adviser to DHSS 1975 to 1982, to Treasury 1983 to 1984, Chief Economic Advisor to DHSS 1984 to 1988 and to DSS 1988 to 1989 (19 February 1990, London)

Jon Stern:

Senior Consultant at National Economic Research Associate; Economic adviser at the DHSS on issues concerning unemployment and unemployment benefits between 1975 and 1980; (25 September 1991, London)

Heinz Westphal:

Member of Parliament (SPD) and Vice president of the Bundestag; Federal Minister for Labour Market and Social Affairs from April to October 1982 (18 September 1990, Bonn)

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